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REPORT OF THE NATIONAL HOUSING TASK FORCE

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND URBAN AFFAIRS

OF THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

THE NATIONAL HOUSING TASK FORCE RESULTS OF THEIR REVIEW OF THE NATIONAL HOUSING POLICY AND THE HOUSING LEADERS ANALYSIS OF THE TASK FORCE'S FINDINGS AND RECOMMENDATIONS

APRIL 12 AND 14, 1988

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REPORT OF THE NATIONAL HOUSING TASK FORCE

TUESDAY, APRIL 12, 1988

U.S. Senate,
Committee on Banking, Housing, and Urban Affairs,
Subcommittee on Housing and Urban Affairs,
Washington, DC.

The subcommittee met at 9:30 a.m., in room SD-538, Dirksen Senate Office Building, Senator Alan Cranston (chairman of the subcommittee) presiding.

Present: Senators Cranston, Sarbanes, Dixon, Sasser, Heinz, D'Amato, Hecht, and Chafee.

OPENING STATEMENT OF SENATOR CRANSTON

Senator Cranston. This meeting of the Senate Housing Subcommittee, a hearing on national housing policy, will now convene.

I'm pleased to welcome all of you here this morning. This is an important opportunity to hear from the two outstanding leaders of the National Housing Task Force on the results of their intensive review of national housing policy. Later this morning and on Thursday, housing leaders will present their analysis of the Task Force's findings and recommendations.

We are here because the country faces an urgent challenge. Each passing month brings clearer evidence that current housing trends are forcing Americans into an intolerable situation. We see the shocking problem of homelessness—even for people with jobs. We see the disgrace of many Americans living in ramshackle, dilapidated, unsanitary, improper homes. We see the impending loss of housing that is affordable to low- and moderate-income Americans. We see the growing frustration of young families—even those with reasonably good incomes—caught in a losing struggle to achieve home ownership. These are tends that threaten the strength of our families and the stability of our society.

More and more Americans in every region of the country understand that our housing needs must be given more attention. They increasingly realize that we cannot sustain the policy of Government hostility to housing, which has marked the past 8 years.

Fortunately, Congress can benefit from an outpouring of careful analysis that is coming from the country's top housing experts and leading organizations that support decent, affordable housing.

A year ago, Senator Al D'Amato and I asked James Rouse and David Maxwell to suggest a fresh, new framework for national housing policy—one that can meet the country's housing needs over the next decade. We asked them to organize the National Housing Task Force, which brought together 26 men and women of achievement—people with unusual understanding, imagination and commitment to decent, affordable housing for all Americans.

The task force report is the product of a remarkably intense and dedicated effort over many months. Attention now turns to legislative action. In the next few weeks, I will be working closely on a bipartisan basis with Senator Al D'Amato, and colleagues in both Houses of Congress, to develop a sound, realistic plan for affordable housing and to build a powerful national consensus for it.

I am confident we can develop bold but realistic housing legislation that has a clear profile—with a manageable number of objectives and compelling themes.

I believe we can make Federal support for housing more straightforward so its purposes can be understood at the national level, and more flexible so it can be tailored to differing local needs.

I believe we can develop a new housing policy that can evoke enthusiasm around the country among State and local leaders, among potential home buyers, among the poor, and among home builders, realtors, and mortgage lenders.

I believe we can develop a new housing policy that is of sufficient scope to address the concerns of a large segment of our population—those who are worried about the ability of themselves or their children to own a home, those who must deal with the difficulties of aging, as well as those who are poor.

I believe we can develop a new housing policy that builds on what has already proven to work well.

We will keep the legislation on a fast track this year and move it through Congress as far as possible.

Details of a new framework housing bill will be announced during May and June as each section is completed. We intend to introduce the bill in both Houses of Congress during July.

In August, the Senate Housing Subcommittee will hold hearings on the legislation, and I expect that the committee will report a bill to the full Senate before the August 15 recess.

Work on this major bill will make it more likely that housing will receive the attention it deserves during the campaign for the Presidency and Congress.

Then we can proceed to enact the legislation early in a new administration if, as I presume will be the case, we don't complete the task this year. If we complete the task this year, so much the better.

I want to thank my good friend, Senator Al D'Amato of New York, for his wonderful collaboration on this effort. We've had a truly bipartisan effort and a bicameral effort as we have worked also with Henry Gonzalez and Marge Roukema, our counterparts on the other side.

I believe that we have an opportunity to do the most significant work on housing at the Federal level and that is, of course, to expand to all levels of our society and all parts of the country—the most significant work since the FHA was created in another era. This could be the most important housing activity of our generation. We are going to do our best, with the help of the witnesses we have today and others, to see that that is the case.

Al, do you have an opening statement?

Senator D'Amato. Well, yes, Mr. Chairman.

OPENING STATEMENT OF SENATOR D'AMATO

Senator D'Amato. First, let me say that I'd like to begin by commending you for your commitment, your diligence, your perspicacity in addressing the critical situation of the Nation's housing crisis. Not only did you seek to put forth a task force, you sought to involve the best in our Nation in terms of all of those who have a longstanding commitment and, more importantly, an understanding of how to produce housing. I believe that the private sector is the most important ingredient in this component. Their involvement, not just legislation that is pasted together without having the thinking of our investment bankers, our commercial bankers, the finest builders, planners and developers, is what makes this such an important piece of work. By getting Jim Rouse and David Maxwell to head up this nationally prominent, outstanding task force that has labored for a year and that has worked with the finest in our academic settings, we now have an opportunity to build the kind of bipartisan consensus and coalition to address this growing problem that faces America.

It's not just the homeless, but it's the problem of the young married. It's the problem of those who find themselves facing rents that continue to increase and threaten to indeed make them homeless. It's the exacerbation of the problem as a result of the 1986 tax laws which have all but brought the construction of rental housing, particularly for low and moderate income families, to a halt.

And one, Mr. Chairman, need only look at some of the statistics. If I might touch on a number of communities in New York, from 1984 through 1987, in the Albany-Schenectady-Troy region, we see an increase in the cost of housing from $50,000 to $80,000. So in that period of time, 3 years, 59 percent increase. In the New York City region—that's New York City, Long Island, Westchester, et cetera—$105,000 in 1984 and the average cost is $169,000 now. Now what young working family is going to be able to take an opportunity for home ownership with this kind of cost reaching, a 61-percent increase?

We look at Syracuse—$50,000 to $65,000; Rochester, $59,000 to $69,000; all increases well over one that we would ordinarily expect.

Another very, very disturbing statistic and, Mr. Chairman, I'm going to ask because I have a very long statement, that my statement be included in the record as if read in its entirety so that we can hear from our witnesses.

Senator Cranston. It will be.

Senator D'Amato. But I think it's important to touch on this crisis that is growing. For 40 years we have had increases in the percentage of Americans who own their own homes, every year, until 1981. In 1981 we began to see a very disturbing fact that takes us from 1981 through 1986 with a decline in those who own their own homes. As a matter of fact, when we look at—and it's only 2 percent—but understand when you are continually going up and now you begin to bring that curve down—and that 2 percent from 1981 to 1986 means that there are 2 million fewer home owners than had the trend at least stayed the same. And it is beginning to increase, particularly as it relates to young people. As it relates to the group between 25 to 29 years of age, the first-time home buyer, we find that there is a better than 7-percent decline in that region. Between those of the ages of 30 to 34, almost a 6-percent decline, and those between 35 and 39, a 4-percent decline.

So, while the total figure is 2 percent, it's much more pronounced in the first-time home buyers and were it not for the fact that you have so many people who are buying a second home, et cetera, I think this figure would be much, much greater.

If we're going to provide home ownership, we've got to begin to move in the direction that this report suggests. One of the things, Mr. Chairman, I would hope that we could possibly fast track would be the FHA insurance program. I'm just going to take one minute to touch on it.

If someone lives in one of the New York metropolitan areas, and the average cost of housing—and this is generally a starter house, a handyman's special—is more than $160,000—the FHA program is useless because it has a mortgage limitation of approximately $101,000. They're not going to be able to get a $60,000 downpayment. So one of the very cogent recommendations that makes so much sense from the task force is raising that limit to 95 percent of the median cost of housing in that area. That will open up housing opportunities incredibly to tens and tens and tens of thousands throughout this country. That's not going to cost the Nation's taxpayers. If anything, it's going to lessen the cost because it's going to have an effect or retarding rents, subsidized rents in many cases which the Federal Government is paying, open up more apartments as young families are able to buy that first home, create construction jobs that otherwise wouldn't be. What a tremendous boom to the economy.

Mr. Chairman, I would hope that under your leadership we would be able to bring together this Banking Committee, at least as it relates to some of those recommendations and that bipartisan spirit, to vote out unanimously or nearly unanimously some of these provisions and see to it that we begin to implement this task force report which is so desperately needed by our people.

So, Mr. Chairman, let me thank you and thank the members of the task force who have worked so diligently and have produced such a wonderful product. Now the ball is in our court.

[The complete prepared statement of Senator D'Amato follows:]

STATEMENT OF SENATOR ALFONSE D'AMATO
NATIONAL HOUSING TASK FORCE REPORT: "A DECENT PLACE TO LIVE"
CHAIRMAN: JIM ROUSE
VICE-CHAIRMAN: DAVID MAXWELL

Mr. Chairman, I would like to begin by commending you for your commitment and diligence in addressing the critical situation of this nation's housing. Without your dedication and perseverance, we would not be here today. At a time when many are focussing on minute stop-gap measures, you have chosen to focus on the broad, long-term needs and priorities of this nation. I am pleased to join you in this effort, and I am excited to be part of the first bipartisan, consensus-building movement in many years to refocus this nation's priorities on housing.

This hearing today is one of a series of hearings that addresses the National Housing Task Force Report. The National Housing Task Force initiated with the encouragement of Senator Cranston and myself in an effort to get an independent group of well established housing practitioners to assess, in a broad and long-term manner, the housing needs of this nation. Along with this assessment, the Task Force was encouraged to make specific recommendations for public policy.

After months of hard work, the Task Force has completed this task. Jim Rouse, the Chairman, and David Maxwell, the

Vice-Chairman, and other members of the Task Force are to be commended for dedicating so many hours and so much energy to this undertaking.

The National Housing Task Force Report has 6 important components:

(1) Providing Homeownership Opportunties for Firsttime Homebuyers,

(2) Improving and Expanding Tax Policy to Produce and Support Housing,

(3) Providing an Easier and More Streamlined Program for the Production of Housing,

(4) Providing New Sources of Capital for Housing through NonProfits, Community Development Banks, and Individuals,

(5) Attacking Drug and Crime Problems in the few, but inexcusable, Problematic High-Rise Public Housing Projects, and

(6) Expanding and Simplifying Programs to Assist Homeless Families and Individuals.

This National Housing Policy Task Force Report will set the stage for a comprehensive legislation package that Senator Cranston and I will introduce in July of this year. Many of the issues addressed by the Task Force will be addressed by the legislation. Many of the focusses of the Task Force Report will be reflected in the Cranston-D'Amato bill.

This hearing, along with others to be held here and around the country are intended to solicit the reactions to the Task Force Report of various interest groups and constituencies. After these hearings, Senator Cranston and I intend to draft legislation reflecting the recommendations of the Task Force as well as the responses to these recommendations.

The Housing Task Force report incorporates a broad and long-term approach to housing -- attempting to create a housing system that will provide fit, decent and affordable housing for all Americans by the year 2000. State and local action are emphasized. Private, nonprofit, and public involvement are essential components of all recommendations.

The report calls for a $3 billion appropriation for a new housing production program (Housing Opportunity Program, or HOP). The program is designed to add 150,000-200,000 new units to the supply of affordable housing. In addition, the report calls for an increase in rental assistance to help 100,000 new families.

In view of the present budgetary constraints, it is unclear as to how much money may be available for these proposed changes this year. Regardless, it is important to recognize the key role that the federal government plays with the supply and demand of housing and that, as soon as possible, Congress will have to make a substantial commitment to meet the housing needs in this country. The Task Force

Report is a first step in moving toward acknowledging and meeting this nation's housing needs.

It is also important to recognize that the current need for housing far outstrips the federal funding currently being allocated. Even with the proposed changes, HUD housing programs would represent only 1.5% of the total federal budget. In a nation whose standard of living is the envy of the world, it is intolerable that adequate, affordable housing is not available to all.

Again, I thank Jim Rouse and David Maxwell for their leadership and involvement in an effort to bring housing back up on the list of this nation's priorities. Senator Cranston and I look forward to working with them to help insure that by the year 2000, all citizens of this country will have access to decent, safe, and affordable housing.

Thank you, Mr. Chairman.

Senator CRANSTON. Thank you, Al, very much for that strong statement. I appreciate the kind personal words and I appreciate your leadership and cooperation.

Senator Sarbanes, I know you have an illustrious constituent as the leadoff witness this morning. Do you have an opening statement?

OPENING STATEMENT OF SENATOR SARBANES

Senator SARBANES. Mr. Chairman, I want to join with you and Senator D'Amato in welcoming Mr. Rouse and Mr. Maxwell here and also to thank them for the extraordinary contribution I think they have made by heading up the National Housing Task Force and submitting this report to the committee.

I think there's an opportunity here to move housing up on the national agenda to address a number of issues which I think are becoming of increasing concern to people all across the country. Obviously, the problem of the homeless, which is a national disgrace, the problem of affordable housing for low and moderate income people and the problem of whether young couples are going to be able to buy a home and participate in home ownership. In fact, after 40 years of a steady increase in the percentage of the population who are home owners, we have seen in the last 7 or 8 years a decline in that figure, so that we are moving away from rather than toward being a nation of home owners and there are many of us who feel that home ownership carries with it important economic and social values in terms of the nature of our society and it is something to be strongly encouraged.

Federal housing programs have taken an unwarranted slash in recent years. We're not even beginning to meet the problem that's there and I think the task force has laid a challenge before us and before the country.

Mr. Chairman, I particularly want to commend you for the leadership you've taken in putting the task force itself together and launching them on their mission. It was safe to assume they would respond in a forthright manner when we saw the leadership of Mr. Rouse and Mr. Maxwell.

I also want to say a personal word about Jim Rouse, who's exercised such strong leadership in this area over the years and who even now with the Enterprise Foundation is seeking ways in which the private sector can come to grips with the housing problem, and one of the things that I'm struck with in the task force report is the emphasis it places on a cooperative effort amongst all levels of government and the private sector, with the emphasis it places upon a marshaling of community resources. We put in the law last year—and Senator D'Amato and I worked closely on this—the Nehemiah program. We're having trouble getting money for it. We've got the authorization on the books but that was an instance of responding to a clear example of a community pulling itself together, creating its own resources in order to address the housing needs of the local citizenry.

So I look forward to these hearings. I think they are going to make a very important contribution, they're going to shape the agenda. This is an opportunity I think for all of those who are interested in addressing the housing problem to begin to marshall their forces, to begin to shape a rational and sensible and coherent piece of legislation and to marshall the political forces behind it that will be necessary to see it put into law. And while I don't expect this process to occur overnight, I do expect it to reach fruition in the near future and enable us to move forward with a very important item on the national agenda.

I again want to underscore our appreciation to Mr. Maxwell and to Mr. Rouse and I simply want to underscore the enormous contributions which Jim Rouse has made as really a leading public citizen over the course of many decades.

Senator CRANSTON. Thank you very much, Paul.

Senator Heinz.

OPENING STATEMENT OF SENATOR HEINZ

Senator HEINZ. Mr. Chairman, first I want to commend you and Senator D'Amato for directing the Nation's attention starting with today's hearings to an important subject that has been too long neglected—namely, the development of a national housing policy.

I feared that the recent enactment of the Housing and Community Development Act of 1987 might have misled people into thinking that we had reestablished a housing policy and while it does lend some clarity and stability to our Federal programs and while it does purport to stabilize our housing policies after a 7-year hiatus and is an accomplishment, the act does not provide nor was it intended to provide a comprehensive solution we need to address in an increasingly diverse and serious set of problems confronting people that seek to find a decent place to live, be they the young couple that can't afford to buy their first home, a low income family who has to shoulder an ever increasing burden of rent, or an individual who needs specialized housing whether they be elderly, physically handicapped, or whatever.

And that is why, along with so many members of this subcommittee and committee, I was delighted with the initiative that led to last year's formation of the National Housing Task Force and, Mr. Chairman, I congratulate you and Senator D'Amato for your foresight and your wisdom in convening this distinguished task force and for recruiting such an able group of people to be a part of it and I really don't think that you could have found or recruited two more able minds than Mr. Jim Rouse and Mr. Dave Maxwell who are well known to each and every one of us for their dedication to this issue.

Jim and Dave, we all owe you a deep debt of gratitude for chairing this task force and you have done yeoman work and you've done it in an extraordinarily short time.

I have, as I'm sure most of the committee has, read with interest the recommendations you've made in the report. There are a lot of them. You've done an excellent job in particular at diagnosing some very disturbing trends in our economy and, most particularly, those in housing.

While the last few years have in some ways indeed been good ones for the housing industry, that simply hasn't helped low and moderate income Americans who are finding housing less available and less affordable. You point out that there are nearly 1 million Americans on waiting lists for public housing. The homeless population, as we know, is in the hundreds of thousands, and the rate of home ownership among young moderate income Americans continues to decline. And on that subject, I believe that unless that latter trend is reversed, our Nation will become a nation of renters not of home owners. We will lose a vital part of the American dream for the average American, and middle income Americans will be denied the independence, security and dignity that is so much a part of the idea of home ownership.

If the average person loses that idea, that security, that dignity, that independence, it may profoundly affect the very character of our society.

Mr. Chairman, I ask unanimous consent that the balance of my statement be placed in the record as if given in full.

Senator CRANSTON. Thank you very, very much, Jack.

[The complete prepared statement of Senator Heinz follows:]

STATEMENT BY SENATOR JOHN HEINZ

Thank you, Mr. Chairman. I commend you and Sen. D'Amato for directing additional attention, starting with todays hearing, to a very important subject that has been neglected for too long—development of a national housing policy.

The recent enactment of the Housing and Community Development Act of 1987 lends some clarity and stability to our federal programs, and to enact a housing bill after a seven year hiatus was quite an accomplishment in itself.

But the act does not provide, nor was it intended to provide, the comprehensive solution we need to address an increasingly diverse and serious set of problems confronting people that seek to find "a decent place to live", be they a young couple who can't afford to buy their first house, a low-income family who has to shoulder an ever increasing rent burden, or an individual who needs specialized housing—an elderly or physically handicapped person, for example.

That's why I was pleased with the initiative that led last year to formation of the National Housing Task Force. Mr. Chairman, I congratulate both you and Senator D'Amato for your foresight and wisdom in convening a Task Force and recruiting such a distinguished group of experts to serve on it.

I don't think you could have picked two of the keener minds in the housing field than James Rouse and David Maxwell to chair the Task Force.

Clearly, a talented group of people is needed to figure out how to address the complex task of producing a coherent and responsive Federal housing policy, to say nothing of the creative financing that will be required given our federal budget situation.

I've read with interest the recommendations you have made in the report. You've done an excellent job in diagnosing many of the disturbing trends in housing. Although the last few years have been good ones indeed for our nation's housing industry, that hasn't helped low- and moderate-income Americans who are finding housing less and less available or affordable. Nearly 1 million people are on waiting lists for public housing. The homeless population is in the hundreds of thousands. And the rate of homeownership for young moderate-income Americans continues to decline. Unless this trend is reversed, our nation will become a nation of renters, not homeowners, we will lose a vital element of the American dream, and middle income Americans will be denied the independence, the security and dignity that is so much a part of the homeownership.

What's important to remember about these problems is that they are all interrelated and, in fact, reinforce each other. When people can't afford rental housing on the private market, demand for federally-assisted housing goes up. When demand for federally-assisted housing outpaces supply to a significant degree, one result is an increase in homelessness. And when moderate income Americans are forced to pay an increased share of their income in rent, they have trouble saving enough money for a down payment on their first house.

What is needed is a comprehensive approach to this problem—in short, a national housing policy. The policy must use a combination of instruments on the tax and the spending side, and must draw resources from government at all levels and the private sector. The Task Force has advanced a number of options in this regard, and we are fortunate to have them.

As a member of the Finance Committee as well as this Committee, I intend to play an active role in the process of developing this legislation, working with you, Mr. Chairman, Senator D'Amato, members of this Task Force, and others, in addressing what is truly one of the most urgent and important problems we face as a nation.

Thank you.

Senator **Cranston**. Senator Sasser.

OPENING STATEMENT OF SENATOR SASSER

Senator **Sasser**. Thank you, Mr. Chairman. I want to join our colleagues in complimenting you for your commitment to this enormously critical issue of the future of housing in America.

I want to join my colleagues in thanking our distinguished witnesses and the National Housing Task Force for this very comprehensive and compelling report that they are presenting today.

No doubt, this Nation is facing a housing crisis. It's becoming more and more apparent I think every day. As this report points out, homelessness is a fact of life for all of our citizens. On occasion, Mr. Chairman, during holidays, I take it upon myself to serve at some of the soup kitchens down in my State and I've seen the character of the people coming through these lines change dramatically over the past 8 years. When we started out, it was generally men down on their luck, some might say derelicts. But now we see, coming through those lines in my State, families, husbands, wives, small children, homeless people who cannot find a place to live that they can afford, oftentimes when the husband has a job that's minimum wage or slightly above.

This is because the supply of rental housing for lower income people is nowhere near what it ought to be to meet the demand. Of those that are housed, as this report points out, many are paying over half of their income in rent.

The rate of home ownership, which Senator D'Amato pointed out to us just a moment ago, has declined for the first time since the Second World War in 1980, after rising substantially for well over 35 years. The greatest decline has occurred among young home buyers. In 1949, almost 40 years ago, when our young men had just returned from fighting the Second World War, Congress announced that the goal of providing a decent home and a suitable living environment for every American family was one that this country must reach. In 1968, this goal was reaffirmed for the decade of the 1970's.

But we've seen public policy in this country change dramatically since 1980. In the 1980's, federal housing assistance was cut. The tax-exempt bond financing of housing was limited and indeed it's soon going to expire. The thrift industry was diversified away from residential lending, all in the name of deregulation, to our great sorrow—to those of us who watched the sorry state of housing and who watch the jeopardy that the FSLIC is put into these days.

All this occurred at the same time that demand and cost was escalating. Since 1970, the cost of housing has risen at a rate four times faster than income. Let me repeat that figure. The cost of housing since 1970 has risen four times faster than income. This problem has reached really terrible proportions with low income families.

Well, there are no easy answers. Housing is an enormously expensive problem. This problem is more difficult to address given the present drastic fiscal imbalance of the Federal budget, but we've got to work on it. There are a lot of things that can be done. Government-owned land, for example, could be made available for housing. We should increase the use of public-private cooperative efforts in pooling resources to finance lower cost homes. There should be a greater commitment to housing loans by our financial institutions.

Mr. Chairman, I look forward to hearing the testimony of these two distinguished gentlemen today and I think when these hearings are concluded we will shed a lot of light not only on the problem but also on what the possible solutions can be. Thank you.

Senator CRANSTON. Thank you very much, Jim. I appreciate your commitment and those remarks very much.

Senator Hecht.

OPENING STATEMENT OF SENATOR HECHT

Senator HECHT. Thank you, Mr. Chairman.

I want to commend the National Housing Task Force for their efforts in compiling the report we have before us today. While I do not agree with all the recommendations set forth in the report, I do feel it is imperative that we establish a national housing policy and your efforts will serve as a valuable beginning in doing so.

I would like to take this opportunity to bring to the attention of my colleagues a resolution I introduced shortly before the recess. S.R. 404 would put the Senate on record as to the importance of tax incentives for home owners and states that no additional restrictions or caps be placed on these benefits.

Today it is tough enough for young people to afford to purchase their first home, yet I see a clear trend being established by many in Congress to enact laws which would dig deep into the pockets of home owners and future home owners. We need to encourage home ownership, not discourage it. I would welcome my colleagues to join me in this effort.

Mr. Chairman, if I may just take one more minute, I'm happy to see Mr. Rouse at the table. Mr. Rouse, I've been a retailer for 35 years and I have followed all of your projects and I have traveled to most of them to see how I could improve my volume per square foot. I think you're absolutely brilliant in what you have done. You have revolutionized downtown America and it's quite refreshing to have a man who has had the great success you've had to head a task force rather than in the 5 years I've been here to have perhaps a college professor who's never been out in the real world heading a task force. I welcome you.

Mr. ROUSE. Thank you, Senator.

Senator CRANSTON. Thank you very much. We now go to our witnesses. I'd like to note that Raymond James and Anthony Freedman, two very talented housing attorneys, headed the staff work for the task force and are at the table with our opening witnesses.

So, Mr. Rouse, thank you. I join in all the tributes to what you and David have done and are doing.

Before we begin, I have a statement from Senator Dixon to insert in the record.

[The prepared statement of Senator Dixon follows:]

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Alan J Dixon

STATEMENT BY SENATOR ALAN J. DIXON
HOUSING SUBCOMMITTEE HEARING
REPORT OF THE NATIONAL HOUSING TASK FORCE
APRIL 12, 1988

MR. CHAIRMAN, FIRST, I WANT TO COMMEND YOU AND THE RANKING MINORITY MEMBER OF THIS SUBCOMMITTEE, SENATOR D'AMATO, FOR HAVING TAKEN THE LEADERSHIP IN SOLICITING EXPERT ASSISTANCE AS WE REEXAMINE OUR NATION'S HOUSING POLICY.

SECOND, I AM GENUINELY APPRECIATIVE TO MEMBERS OF THE NATIONAL HOUSING TASK FORCE FOR THE

REPORT, "A DECENT PLACE TO LIVE." WHILE I CONTINUE TO EXAMINE THE DOCUMENT, I WELCOME MANY OF ITS RECOMMENDATIONS.

AND THIRD, AS A MEMBER OF THIS SUBCOMMITTEE, I EXTEND MY THANKS TO OTHERS WHO CONTRIBUTED IDEAS, DOCUMENTS, AND FINANCIAL AND OTHER INVALUABLE ASSISTANCE TO THE TASK FORCE.

MR. CHAIRMAN, DURING THE POST-WORLD WAR II ERA, OUR GOVERNMENT COMMITTED ITSELF TO THE TASK OF PROVIDING ADEQUATE HOUSING TO ALL OF ITS CITIZENS. LEGISLATION WAS ENACTED WHICH SET FORTH A NATIONAL

GOAL: TO PROVIDE EVERY AMERICAN FAMILY WITH "A DECENT HOME AND A SUITABLE LIVING ENVIRONMENT."

WHILE THE FEDERAL GOVERNMENT HAS WORKED WITH PRIVATE ENTERPRISE AND STATE AND LOCAL GOVERNMENTS TO REACH THIS OBJECTIVE, I HAVE SEEN THIS ADMINISTRATION'S FEDERAL HOUSING PROGRAMS ON A CONSTANT DECLINE AND FEDERAL HOUSING PROBLEMS ON A CONSTANT RISE. I CONTINUE TO SEE GROWING EVIDENCE OF A LACK OF AFFORDABLE AND AVAILABLE HOUSING FOR LOW- AND MODERATE- INCOME FAMILIES, AND WORSENED HOUSING PROBLEMS FOR

THE HOMELESS AND FIRST-TIME HOME BUYERS.

THIS MORNING, MR. CHAIRMAN, I WELCOME THE OPPORTUNITY TO HEAR FROM THESE WITNESSES AS THEY PRESENT PROPOSALS TO AID IN ALLEVIATING THE NATIONAL HOUSING PROBLEMS, WHILE FOCUSING ON THE TASK FORCE REPORT.

STATEMENT OF JAMES W. ROUSE, CHAIRMAN AND CEO, THE ENTERPRISE FOUNDATION; CHAIRMAN OF THE NATIONAL HOUSING TASK FORCE, ACCOMPANIED BY RAYMOND K. JAMES AND ANTHONY S. FREEDMAN, STAFF MEMBERS OF THE TASK FORCE

Mr. ROUSE. Thank you, Senator.

My name is Jim Rouse. I must begin by thanking you, Senator Cranston and Senator D'Amato and the other Senators here, for your very friendly greetings to our report. I must say that gives us and all of our task force a lot of heart and hope for its usefulness to the country.

I am chairman and chief executive officer of The Enterprise Foundation, a nonprofit institution to support housing for very poor people. It has been my privilege to serve as Chairman of the National Housing Task Force which was organized in response to the efforts of the Senate and House Subcommittees to develop a new national housing policy.

With me is David Maxwell, Chairman and Chief Executive Officer of Fannie Mae. David has been Vice Chairman, but more than that, we have been partners in this effort. There really is no chairman or vice chairman, there are simply two partners who have headed this effort.

BACKGROUND

On behalf of the members of the task force, 26 individuals with wide-ranging experience in housing production, policy, and finance, we appreciate the opportunity to be here to discuss the recommendations contained in our report. These recommendations represent the culmination of more than 6 months of intensive study, debate, and drafting.

In our work, we had the help of many people and groups. We reviewed position papers submitted by 72 business and professional organizations concerned with housing which were submitted to the House and Senate Banking Committees. We studied a set of 20 papers prepared by scholars and practitioners under the auspices of MIT. We also received valuable assistance from the National Housing Advisory Panel, a 42-member group that we formed with the help of Leland Brendsel, President of the Federal Home Loan Mortgage Corporation, and Ira Gribin, president-elect of the National Association of Realtors. The task force received financial support from many institutions, notably the Charles Stewart Mott Foundation, whose contribution was indispensible to financing the work of the task force.

While not every statement nor the wording of every recommendation is endorsed by each member of the task force, we did reach a consensus on the nature of America's housing needs and the basic steps that should be taken to respond to that challenge. I might say at the beginning we did not contemplate this diversity, and we allowed for dissents by anyone who chose to dissent in the final report, but no dissent was necessary. It is a unanimous report. One of the most notable and important aspects of the task force operation was the wide area of agreement among men and women of very diverse backgrounds, particularly in their clear conviction that housing for the very poor is a current disgrace and its correction is a crucial necessity to the well being of this Nation. We offer today an overview of our best collective thoughts on the steps needed to achieve an old promise and an everpresent dream—that all Americans have the opportunity for fit, livable, and affordable housing in safe and vital neighborhoods.

For most people in the United States, particularly middle and upper income families, housing has been one of our country's most visible success stories. But for millions of Americans, we have not only fallen short but are losing ground.

HOUSING FOR POOR IS DECLINING

Over 32 million people live in poverty today, up from 25 million 10 years ago. The primary financial problem for these people is paying for housing. It's clearly the biggest part of the budget for the poor. And only about one in four of the very poor receive any Federal assistance in housing.

While the number of poor people has jumped, the supply of decent housing they can afford has dwindled. According to the latest published HUD Housing Survey, the number of low income renter households—earning below $10,000—seeking affordable housing had outstripped the supply theoretically available to them by 1.7 million—1.7 million more families with incomes that could afford dwelling units with a $10,000 income than the number of units available. That is an abrupt and severe change over the last 10 years. But in reality, the situation is even worse because low-income households compete with other more affluent renters in the housing market. Poor renters actually get only about ½ of the units that are affordable to them.

The cost of housing for the poor has gone up—way up—so that today 6 million poor families—nearly half of those with incomes under $10,000 a year—are paying more than 50 percent of their income for rent. Think of trying to live, buy food, obtain health care, and raise children on what's left.

And for the first time in decades, these housing problems are pulling down young families and working people who are often one or two paychecks away from the street, or who are seeing their dream of owning a home shattered by soaring prices, high mortgage interest rates, and stagnant incomes.

All of these problems manifest themselves in a growing tragedy in this Nation—the homeless, who are only the tip of the iceberg of far more fundamental problems. We are all moved by their plight—men and women asleep on the sidewalk; families roaming the streets and living under bridges with no place to spend the night. But the housing problems of the homeless, the poor, and moderate income working people must not be viewed or dealt with in isolation. They are part of a continuum. If renters cannot move up into their own homes, the way for others on the ladder is blocked, and so down the income scale until families—thousands—are forced to the streets.

I wonder if we ever have known in American history a situation where in a period of prosperity there are men, women, and children on the street at night looking for a place to live. This fact means that there are many, many more millions of people just behind them in the fear that they may be on the street and the certain knowledge that they will if they have an important setback.

The task force report presents a ten-point program with specific recommendations that are inextricably linked. They can build upon one another to reverse these disturbing trends. They are but the first steps to set the Nation on a course to reaching our stated goal: To provide the opportunity for all citizens to have fit, livable, and affordable housing by the year 2000.

The task force's recommendation combine production, preservation, tax incentives, and rental assistance to reach the goal. David and I will discuss each major point briefly.

HOUSING OPPORTUNITY PROGRAM

First, we propose what we have called the Housing Opportunity Program, with the acronym HOP—which has a kind of a blithe spirit about it. The centerpiece of our proposals is a recommendation that the Federal Government should create and invest in a new housing delivery system—that's very crucial—designed to foster and stimulate State and local initiatives to develop, renovate, and preserve low income housing. We call this new initiative the Housing Opportunity Program—HOP for short. It would be funded by $3 billion annually and would be the primary vehicle for delivering new federal funds for housing production.

It is clear from past Federal housing efforts that there is no single, national solution to widely diverse local housing problems. Housing markets are local and the Federal Government is not as well-equipped as local governments to understand these markets, assess needs, and develop tailored responses. If more Federal money is to be invested in housing—and it must be—it must be used efficiently and assure long-term, low-income use.

The task force was greatly encouraged to find that the components of this new delivery system that has developed in the country have been in the making over the last decade. It has emerged from the community level in response to local needs. It is marked by vigorous new efforts by State and local governments and nonprofit developers. It has enlisted the strength and experience of private developers and has involved local businesses, financial institutions, and religious organizations in a "new wave" of housing production.

There are a few examples of what is being accomplished and these are only examples. Fifteen States and a growing list of cities have trust funds that have produced substantial new money for housing. They are funded in a variety of ways—for example, by transfer taxes and interest from escrow accounts.

An increasing number of States are expanding their housing programs. In Massachusetts, the State government has allocated nearly $1 billion for the development of State-funded low-income housing units. These were built on a small scale on scattered sites around the State.

There is also increased activity at the local level. To illustrate, in Chattanooga, the Chattanooga Neighborhood Enterprise, a partnership of city government, business, neighborhood leaders and private lenders, has embraced a plan to make all housing occupied by very poor families in the city of Chattanooga, some 14,000 units, fit and affordable within 10 years. This is an extraordinary commitment, the first in the United States by a single city, to make all housing occupied by poor people fit and affordable in a set period of time.

In just 90 days, Chattanooga Neighborhood Enterprise raised a 3-year operating budget of $2.3 million in the private sector, and the mayor of Chattanooga has recently proposed a sales tax to be dedicated to low income housing costs. This program depends absolutely on increased Federal assistance over the next 10 years to meet its ambitious goals. Estimated cost of doing this in Chattanooga is $200 million over 10 years. A lot will come from the local community. A lot will come from business and from foundations and from the city government, but the spine of this program must be the kind of Federal assistance that is provided in these proposals.

In Pittsburgh, the State and local governments have joined forces with Fannie Mae and a consortium of foundations to finance the rehabilitation of an old YMCA building slated for demolition which surely would have been flattened by now, thereby producing 270 units of badly needed transitional housing for the homeless. The partnership made use of tax credits for both low income housing and historic rehabilitation to do the job. It could not have happened without those benefits.

This new wave of State and local initiatives is a new hope, but in total resources it is very small in relation to total need. It is spotty in geographic coverage and can not do the job without increased Federal funding. But it is a most promising opportunity. It is a new hope for our country. And based on this experience, the task force recommends creation of the HOP initiative.

We believe HOP will define a new and workable cooperative federalism in housing for the 1990's, one that involves Federal funding and leadership together with State and local funding and hands-on know-how. HOP has three distinct aspects:

It is designed to induce substantial new funds and resources from State and local governments and the private sector. One-half of the HOP monies would go to States for distribution to localities, with a requirement of matching funds or equivalent resources from the State and local governments. These resources could come from a variety of sources—tax revenues, charitable contributions, land donations—but would have to represent "hard" new dollars coming in to add to the total pot and to augment Federal funds. This would produce an additional $1.5 billion for low income housing based on the recommended first-year funding of $3 billion from the Federal Government. The other half of HOP funds would be distributed directly to local governments according to a needs formula to provide the continuity and certainty so essential for effective multiyear housing efforts.

It would provide funds with a maximum of flexibility and a minimum of regulation to meet distinctive local needs. HOP funds could be used for a wide variety of purposes, for example, moderate rehabilitation, acquisition, homeless assistance, and so forth. And assistance could be provided in many forms that the State or local government found appropriate and effective—grants, loans, interest reduction subsidies.

It would place a shared burden on State and local governments to create effective approaches to meeting national goals and addressing special housing needs. While HOP would give States and localities a great deal of latitude, it would require them also to target their housing programs to low income people, expand housing opportunities for minorities, reduce housing costs by reducing unnecessary regulatory burdens, and meet the special needs of the elderly, handicapped, and other groups. They would also be required to demonstrate progress in meeting local goals.

PRIVATE FUNDING

The task force has searched for new ways of drawing private funds and the private banking system into financing housing for low income families. We propose a program that with a modest standby of Federal funds and a small seed capital investment could attract substantial private funds at low rates for low income housing. Throughout this study and this report we have struggled to find all the ways we could find, from State and local government and from private sources, to enlist with the Federal funds to make a much bigger total arry of resources available for attacking this problem of housing the poor.

The early success of several benevolent lending programs—a unique force in America, where investors deposit funds at rates as low as 3 percent to finance low income housing—indicates that a very large flow of funds can be developed if the system can be made safe and simple. The underlying appeal of this approach is that investors can perform a charitable act by lending their funds to help the poor and receive a modest return and then get their money back when they need it.

Charitable contributions in the United States have really become a tremendous force in this country, one not adequately appreciated. They exceeded $80 billion in 1986, up 172 percent since 1976. But there were 40 million taxpayers who reported no contributions at all in 1985. This indicates that there is a large pool of funds to be tapped to house the poor, but the financial institutions need standby support in case withdrawals from benevolent loan funds temporarily exceed deposits once long-term loans have been made for low income housing at low rates. Standby Federal support of $500 million could generate upward of $2 billion in additional capital for housing poor people and none or only a very small part of that $500 million need ever be available.

Community development banks are another promising way to attract and leverage private capital for low income housing. Drawing on the experience of several of these banks, most notably the South Shore Bank of Chicago which has turned a profit while revitalizing a neighborhood of 80,000 people over the last decade, the task force recommends that the Federal Government invest up to $5 million in each of five demonstration community development banks. These banks would be expected to operate on a sound financial basis after the initial start-up phase and would repay their Federal investment into a revolving fund to support additional banks. This is a seed worth cultivating. The work of that South Shore Bank is extraordinary and it can be repeated. We have met with the man who established and has run that bank. Ronald Grzywinksi, and he is confident that this is a replicable institution.

Next, we recommend creation of a new institution the Housing Opportunity Corporation of America to help establish and promote the benevolent loan funds and the community development banks. It would also support and nurture the "new wave" delivery system, and gather and distribute information about successful efforts, and report to Congress and the President on the progress and problems of the new housing delivery system. The Housing Opportunity Corporation of America HOCA, would be a federally chartered, nonprofit institution guided by a board of nationally recognized citizens in the fields of development, finance, and delivery of low income housing.

David Maxwell will summarize the rest of our key recommendations, and then we will each be pleased to answer any questions you may have.

But let me leave with you one thought. It is that none of what the task force has proposed can be carried out, nor is there any chance of reaching our goal of fit, livable, and affordable housing for all Americans, without a renewed commitment and funding from the Federal Government. Without Federal leadership beginning in the 1930's, we would not be a nation of home owners today. The Federal Government must now reaffirm its role as leader in finding solutions to the country's grave housing problems. The Federal Government must shape the national housing agenda, draw attention to needs, set goals, establish standards for performance, and act as a catalyst. But most of all, it must provide adequate funds to do the job. The program we outline calls for modest increases in Federal funding to set the Nation on a course to meet the goals we hold so important.

A decent place for a family to live becomes a platform for dignity and self-respect and a basis for hope and improvement. A decent home allows people to take advantage of opportunities in education, health, and employment—the means to get ahead in our society. A decent home is the important beginning point for growth into the mainstream of American life.

This is the wealthiest nation in the world with perhaps the greatest problem-solving capacity in the history of mankind. Surely we can match our resources and ingenuity with our concern for the dignity and well-being of our people. I look forward to working with you toward that goal. Thank you.

[The complete prepared statement of Mr. Rouse follows:]

JAMES W. ROUSE

REMARKS TO THE JOINT HEARING

OF THE SENATE AND HOUSE HOUSING SUBCOMMITTEES

April 12, 1988

Good morning. My name is James Rouse. I am chairman and chief executive officer of the Enterprise Foundation, a non-profit institution dedicated to providing decent housing for poor people. It was my privilege to serve as chairman of the National Housing Task Force, which was organized in response to the efforts by leaders of the Senate and House Housing Subcommittees to develop a new national housing policy. With me is David Maxwell, chairman and chief executive officer of Fannie Mae, who played a key role in the Task Force's work as its vice chairman.

On behalf of the members of the Task Force--26 individuals with wide-ranging experience in housing production, policy, and finance--we appreciate the opportunity to be here today to discuss the recommendations contained in our report. These recommendations represent the culmination of more than six months of intensive study, debate, and drafting.

In our work, we had the help of many people and groups. We reviewed position papers submitted by 72 business and professional organizations concerned with housing to the House and Senate Banking Committees and studied a series of 20 papers prepared by scholars and practicioners under the auspices of the Massachusetts Institute of Technology. We also received valuable assistance from the National Housing Advisory Panel, a forty-two member group that we formed with the help of Leland Brendsel, president of the Federal Home Loan Mortgage Corporation, and Ira Gribin, president-elect of the National Association of Realtors. The Task Force received financial support from many institutions, notably the Charles Stewart Mott Foundation, whose contribution was indispensible to financing the work of the Task Force.

While not every statement nor the wording of every recommendation in the report is endorsed by each member of the Task Force, we did reach a consensus on the nature of America's housing needs and the basic steps that should be taken to respond to that challenge. One of the most notable and important aspects of the task force operation was the wide area of agreement among men and women of very diverse backgrounds--particularly the clear conviction among us that housing for the very poor is a current disgrace and its correction is crucial necessity to the well-being of this nation. We offer today an overview of our best collective thoughts on the steps needs to achieve an old promise and an ever-present dream--that all Americans have fit, livable, and affordable housing in safe and vital neighborhoods.

THE HOUSING NEEDS OF AMERICANS

For most people in the United States, particularly middle- and upper-income families, housing has been one of our country's most visible success stories. But for millions of families we have not only fallen short, but are losing ground:

--Over 32 million people live in poverty, up from 25 million just 10 years ago. The primary financial problem for these people is paying for housing. Only about one in four receive any federal housing assistance.

--While the number of poor people has jumped, the supply of decent housing they can afford is dwindling. According to the latest published HUD Housing Survey, the number of low-income renter households (earning below $10,000) seeking affordable housing had outstripped the supply theoretically available to them--by 1.7 million! But in reality, the situation is even worse. Because low-income households compete with other more affluent renters in the housing market, poor renters actually get only about 1/2 of the units that are affordable to them.

--Not surprisingly, the cost of housing for the poor has gone up--way up--so that today six million poor families pay more than 50% of their income for rent.

Think of trying to live, buy food, obtain health care, and raise children on what's left.

--And for the first time in decades, these housing problems are pulling down young families and working people who are often one or two paychecks away from the street, or who are seeing their dream of owning a home shattered by soaring prices, high mortgage interest rates, and stagnant incomes.

All of these problems manifest themselves in a growing tragedy in this nation--the homeless, who are only the tip of the iceberg of far more fundamental problems. We are all moved by their plight--men and women asleep on the sidewalk; families roaming the streets and living under bridges, with no place to spend the night. But the housing problems of the homeless, the poor, and moderate-income working people must not be viewed or dealt with in isolation. They are on a continuum. If renters cannot move up into their own homes, the way for others on the ladder is blocked, and so down the income scale until families--thousands--are forced to the streets.

The Task Force report presents a ten-point program with specific recommendations that are inextricably linked. They can build upon one another to reverse these disturbing trends. They are but the first steps to set the nation on a course to reaching our stated goal:

To provide the opportunity for all citizens to have fit, livable, and affordable housing by the year 2000.

THE RECOMMENDATIONS

The Task Force's recommendations combine production, preservation, tax incentives, and rental assitance to reach our goal. David and I will discuss each major point briefly.

HOUSING OPPORTUNITY PROGRAM (HOP): The centerpiece of our proposals is a recommendation that the federal government should create and invest in a new housing delivery system designed to foster and stimulate state and local initiatives to develop, renovate, and preserve low-income housing. We call this new initiative the Housing Opportunity Program--HOP for short. It would be funded at at least $3 billion annually, and would be the primary vehicle for delivering new federal housing production funds.

It is clear from past federal housing efforts that there is no single, national solution to widely diverse local housing problems. Housing markets are local, and the federal government is not as well-equipped as local governments to understand those markets, assess needs, and develop tailored responses. If more federal money is to be invested in housing as we recommend, it must be used efficiently and assure long-term, low-income use.

The Task Force was greatly encouraged to find that the components of this new delivery system have been in the making over the last decade. It has emerged from the community level in response to local needs. It is marked by vigorous new efforts by state and local governments and nonprofit developers. It has enlisted the strength and experience of private developers and has involved local businesses, financial institutions, and religious organizations in a "new wave" of housing production.

These are but a few examples of what is being accomplished:

--15 states and a growing list of cities have trusts funds that have produced substantial new money for housing. They are funded in a variety of ways--for example, by transfer taxes and interest from escrow accounts.

--An increasing number of states are expanding their housing programs. In Massachusetts, for example, the state government has allocated nearly $1 billion for the development of state-funded low-income housing units. These were built on a small scale on scattered sites around the state.

--There is also increased activity at the local level. To illustrate, in Chattanooga, the Chattanooga Neighborhood Enterprise (CNE), an alliance of city government and private lenders, has embraced a plan to make all low-income housing in the city–some 14,000 units–fit and affordable within 10 years. In just 90 days, CNE raised a three-year operating budget of $2.3 million, and the mayor recently proposed a sales tax to be dedicated to low-income housing costs. This program depends on increased federal assistance over the next ten years to meet its ambitious goals.

–In Pittsburgh, the state and local governments have joined forces with Fannie Mae and a consortium of foundations to finance the rehabilitation of an old YMCA building slated for demolition, thereby producing 270 units of badly need transitional housing for the homeless. This partnership made use of both the federal low-income housing and historic rehabilitation tax credits.

This new wave of state and local initiatives is a new hope, but in total resources it is very small in relation to total need. It is spotty in geographic coverage and will not spread without increased federal funding. But it is a most promising opportunity, and based on this experience, the Task Force recommends creation of the HOP initiative.

We believe HOP will define a new and workable cooperative federalism for the 1990s, one that involves federal funding and leadership together with state and local funding and hands-on know-how. HOP has three distinctive aspects:

–It is designed to induce substantial new funds and resources from state and local governments and the private sector. One half of the HOP monies would go to states for distribution to localities, with a requirement of matching funds or equivalent resources from state and local governments. These resources could come from a variety of sources–tax revenues, charitable contributions, land donations, etc.–but would have to represent "hard," new dollars. This would produce an additional $1.5 billion for low-income housing, based on the recommended first-year funding of $3 billion. The other half of HOP funds would be distributed directly to local governments according to a needs formula to provide the continuity and certainty so essential for effective multi-year housing efforts.

–It would provide funds with a maximum of flexibility and a minimum of regulation to meet distinctive local needs. HOP funds could be used for a wide variety of purposes (for example, moderate rehabilitation, acquisition, homeless assistance, etc.), and assistance could be provided in many different forms that the state or local government found appropriate and effective (for example, grants, loans, interest reduction subsidies, etc).

–It would place a shared burden on state and local governments to create effective approaches to meeting national goals and addressing special housing needs. While HOP would give states

Senator **Cranston**. Thank you very, very much, Jim.
David.

STATEMENT OF DAVID MAXWELL, CHAIRMAN AND CEO, FANNIE MAE; AND VICE CHAIRMAN OF THE NATIONAL HOUSING TASK FORCE

Mr. **Maxwell**. Thank you, Mr. Chairman.

Good morning. My name is David Maxwell. I'm Chairman and Chief Executive Officer of Fannie Mae.

It was my privilege to serve as Vice Chairman under Jim Rouse's dedicated leadership of the National Housing Task Force. As I'm sure is no surprise to you, Mr. Chairman, Jim Rouse outworked and outthought all of us on the task force. His leadership was tireless and inspiring at all times.

Mr. Chairman, I want to thank you and Senator D'Amato for the strength that you brought to our effort and I think that the fact that you have begun these hearings so quickly upon the publication of our report is enormously gratifying to the members of the task force and makes us feel that the work we did has really been worthwhile. It's not been shelved. It's being acted on.

And I think you will be encouraged, Mr. Chairman and Senator D'Amato and your colleagues, to hear that we have had literally thousands of requests for this report from around the country already, and I think that shows that there is a groundswell of opinion in this country that will support your efforts to move housing up on the national agenda promptly.

Jim has covered this morning the purposes of the task force and the centerpiece recommendations to create a new housing delivery system, HOP, and to encourage mechanisms to attract substantial new sources of funding for low-income housing. I will briefly review the remaining recommendations of the task force.

These include proposals addressing the needs of first-time home buyers, preserving and modernizing the existing supply of low-income housing stock, changes in tax policy to benefit low- and moderate-income rental housing, fair housing, rural housing, and the importance of rental assistance.

FIRST-TIME HOME BUYERS

Let me begin with our recommendation to expand home ownership opportunities, particularly for potential first-time home buyers. It was the clear view of the task force that the vast majority of middle and upper income home buyers are well taken care of in this country through current Federal policies and the existing housing finance system. Therefore, our focus was primarily on families with more modest incomes who are experiencing difficulties in becoming home owners.

We expect HOP funding will be used in many jurisdictions to foster home ownership for low and moderate income households, and one excellent example of how this might be done is the Nehemiah program. Beyond that, our home ownership recommendations do not contemplate new Federal programs. Rather, we envision refining existing programs as the most effective way to extend home ownership opportunities to a broader population.

Our proposals center primarily on three resources: the FHA program, IRA accounts, and the mortgage revenue bond program.

FEDERAL HOUSING ADMINISTRATION

With respect to the FHA, it is well to recall how the FHA first came into being. Back in the early 1930's, the housing finance system had collapsed. The creation of FHA, with its insurance program for 30-year level payment mortgages for people of modest means, began the process of reviving the mortgage market and restoring progress toward home ownership as a basic value of our society.

FHA's activity in turn spurred the revival of conventional lending. FHA can play the same role today with respect to lending for first-time home buyers. The fact is that foreclosure experience and the weakness of the private mortgage insurance business understandably have led conventional lenders and investors to tighten underwriting requirements for high ratio loans. FHA is well positioned to carry the risk of such loans, as it returns a profit to the Federal Government.

As FHA assumes a larger role in providing financing for these buyers, it will invigorate the whole system and lead to a similar revival in conventional financing.

Moreover, the FHA should be available on an equal basis to borrowers in every section of the country, not just those areas where housing prices are low. We therefore make three recommendations with respect to FHA.

First, we recommend reducing the FHA downpayment requirement to address the difficulties that many first-time home buyers experience in trying to accumulate the cash required to qualify for a home loan.

We recommend permitting FHA borrowers to secure financing of up to 97 percent of the first $50,000 of the home's value (current law caps it at $25,000) and 95 percent of value in excess of $50,000. On a $65,000 home, this would reduce the downpayment requirement to $2,250 from $2,750, a decline of 18 percent.

Second, we propose removing the FHA's current nationwide maximum mortgage limit of $101,250. Limits would be set at 95 percent of area median home sales prices computed separately for new and existing homes. No area would have a lower limit than they do now. In one-fifth of all metropolitan areas, including five of the top ten, the current nationwide maximum FHA mortgage limit of $101,250 is well below the cost of median priced homes. That means that, in these high-cost areas, FHA is not useful to many potential first-time home buyers.

For instance, in Los Angeles, the new limit for existing homes would be $132,525; and in New York City, $169,575.

Third, we recommend that Congress change the FHA adjustable rate mortgage program to remove the volume cap of 30 percent and to permit 2 percent annual changes in interest rates with a 5 percent life of the mortgage cap.

INDIVIDUAL RETIREMENT ACCOUNTS

Our report endorses allowing taxpayers who do not own a home to tap their individual retirement accounts [IRA's] and other self-funded benefits plans to make downpayments on a home. We see no reason why first-time home buyers should not be able to tap such plans to facilitate what will be the most important investment of their lifetimes—their homes.

We propose extending mortgage revenue bond programs for low and moderate income home buyers. According to a recent independent study of these programs for nine States analyzed so far, the median income of families benefiting from such a assistance has been $24,000 and the median home price purchase amount has been $51,000—well below the national median figures for both income and cost of existing homes of $30,725 and $85,600, respectively.

Finally, we believe that States and local communities should include in their programs to meet housing needs (in order to qualify for HOP) specific proposals on how they will break down artificial barriers to affordable housing. I speak, of course, of techniques of exclusionary zoning, out-of-date building codes, complicated permit procedures, and impact fees. Obviously, no one is interested in despoiling the environment, but well-planned communities have been and can be created without setting up barriers to housing for people with low and moderate incomes.

The remaining task force recommendations reflect the balanced approach that is necessary to improve our Nation's housing. HOP will not be enough by itself to meet the housing needs of poor families. Preservation, amendments to the Internal Revenue Code, and rental assistance are also needed.

With respect to preservation, the Federal Government must try to maintain for low income use the hundreds of thousands of federally subsidized rental units threatened by the prepayment of subsidized mortgages and to extend expiring rental subsidy contracts. For specific ways of doing this, we defer to the National Low Income Housing Preservation Commission under the leadership of Carla Hills and Henry Reuss, which has studied this issue thoroughly and will report very soon.

Our report encourages States and localities to use HOP funds to help preserve and renovate the hundreds of thousands of privately owned, unsubsidized rental units where most poor families live. Efforts could be modeled on experience like that of Pittsburgh, where modest rehabilitation loans to landlords who own small buildings and rent to low income citizens have produced good results.

We also urge the Federal Government to continue to modernize the Nation's stock of public housing that has consistently served the poorest of the poor and currently shelters 1.4 million families.

We urge immediate action to redress the dreadful conditions in some public housing projects, but we also recognize that most public housing authorities are competent managers of their properties. These competent authorities should be supported.

The task force recommends limited changes in tax policy. We do not wish to roll back tax reform, but we believe some tax incentives must be restored to spur the production of low and moderate rental housing. These needed changes are outlined in detail in our report.

Other important recommendations in the task force report deal with fair housing and rural housing. We recommend State and local commitment to fair housing as part of HOP programs and more effective Federal action. For rural housing, we propose to strengthen existing Federal programs and to build the capacity of nonprofit rural developers.

Rental assistance is a necessary complement to production, rehabilitation, and preservation. To begin to provide more realistic levels of such assistance, we propose that Congress increase rental assistance over the administration's request by 100,000 units for fiscal year 1989, making an additional 200,000 units in all.

In conclusion, let me emphasize that the housing problems of the homeless, the poor, the frustrated first-time home buyer, as Senator D'Amato has said so eloquently, are all linked. We must address all elements of the situation to create an effective housing policy.

Thank you again for your wonderful support and thank you for the opportunity of testifying here today.

Senator CRANSTON. Thank you very much, both of you, for your very concise and very constructive testimony.

I have a lot of questions but I'm going to only ask a couple so that my colleagues will have their opportunity.

First, there are those who argue that despite the problems of the homeless and other difficulties that we are the best housed country in history and that most of the housing problems we face won't affect most Americans.

What trends do you see at work that will extend the housing problems to more and more Americans if we don't undertake some constructive action?

Mr. ROUSE. Over the last 10 years, there has been a steady decline in the number of dwelling units that were available to very poor families. That measurement is at a rent of $250 a month or less. That's in 1986 dollars.

That decline has been straight down, from 13 million units in 1973 to 9 million units in 1983. On the other hand, the number of families needing housing at rents of $250 a month has steadily increased during those years.

Now the number of families needing housing at $250 a month or less is 1.7 million in excess of the number of units available. Those lines crossed back about 1982 or 1983 and they are continuing to run that way with the number of dwelling units declining and the number of families increasing.

And also, only about half of the units rented under $250 a month are occupied by very poor families because, needless to say, there are many other people who filter into that market. So that that marks the trend. That describes why homeless people are on the street. This pressure is steadily building of more and more people for less and less housing, and therefore more and more people are paying more and more of their income and have less and less in reserves, and are therefore on the edge of being pushed onto the street. That's the homeless problem.

The homeless—the poor are being blessed by the homeless because, for the first time in our history, a vivid expression is being given to the real needs of the poor and those real needs are housing that they can afford. We're in a worse condition by far today in America than we were 10 years ago. That's the trend.

Senator CRANSTON. Thank you. David?

Mr. MAXWELL. I just would like to second what Jim said and add that it seems to us that you could analogize this, if you have a leaky roof in your house, you don't have to repair it if you don't want to spend the money, but the water is going to come down through the walls and it's going to get under the foundation and it's going to rot the property sooner or later. And it appears to the task force, as Jim said, that the homeless are merely the tip of the iceberg and they are the sign, the visible sign to most Americans, of a problem that is invisible to most Americans. And if we don't begin to address it now, we're going to have the same kind of rot in our system, and that we are going to have to pay much more for in both money and social costs in later years.

Senator CRANSTON. Thank you. I'd like to ask you both just one question in relation to the realms that each of you are responsible for. I'll start with you, Jim.

What do you consider the most innovative or the freshest aspect of the report that you have made? What's the newest thing?

NEW IDEAS

Mr. ROUSE. Well, it's a combination of two things. This was a very earnest task force. We met virtually every week. We missed only one or two between September and mid-December, working 2 days and a night in every week. This was a very thorough-going study and work. This was not a casual report by technicians and then adoption of it. Then we spent months drafting it after that.

But the heart of everything was that we had to find a way to add to the Federal pot. We had to increase the funds available from the Federal Government to house the poor. That led to the requirement of matching funds by the State, adding $1½ billion to the Federal funds to create a $4.5 billion pot.

The second important thing was that we wanted to find a delivery system for this money that was right down where the people were, where the need was, that would be distributed in very sensitive expression of the need. Therefore, this money to go to the cities and the States—a $1½ billion goes to the cities with wide flexibility, little regulation—only general standards that the Federal Government has the right or the responsibility to see are fulfilled by fair housing.

But here it is now. It evokes enormous flexibility, inventiveness, initiatives at the local level, and what we are finding is, that kind of thing has been sprouting in different ways in different cities and States and regions, depending upon the need and depending upon the resources of those areas.

This Federal money now goes toward and, instead of just grants and loans, it goes in supporting research and development in housing through all of these efforts—State and local governments, nonprofit and for profit-developers, churches, everybody is in the act. It becomes a real national program to house the poor. Adding to the Federal money and distributing it for greater effectiveness, I think, is the cardinal point of the report.

Senator Cranston. David?

Mr. Maxwell. With respect to home ownership, Mr. Chairman, I think that the task force approached this subject from the point of view of you and your colleagues, that home ownership is a bedrock of the American system and its declining trend is extremely disturbing in terms of the future stability of our society. We recognized at the same time that this report had to be in the mainstream of political possibility and it wouldn't be useful to the committee to make unacceptable recommendations. So in the home ownership area, I think you would say that the innovative aspect of the report is to find ways to use the existing institutions to help first-time home buyers, particularly in these high-cost areas, to achieve the American dream. And we believe that we have done that without imposing unacceptable burdens on taxpayers.

Mr. Rouse. There one more thing that I would like to add, which is another important part of this report. So often housing recommendations center on a single program. This task force has recognized that solution of this must come from using all of the appropriate things that are available. Therefore, it focuses on new housing production, both rehabilitation and construction; it focuses on preservation and enabling that to occur; and it focuses on finance and tax assistance to financing. Then it also focuses on rental assistance, recognizing that no matter how good a job we do in housing production, which cannot be reached—whose income simply will not support even taxes and utilities. Therefore, in both production of new supply and preservation and financing and in rental assistance, we have tried to make a rational, comprehensive response that does make up a legitimate appropriate housing program.

Senator Cranston. Is the cost and outlays of what you're proposing less than $4 billion annually? What is the figure?

Mr. Rouse. It comes to $3.380 billion. We would be adding to the HUD budget of roughly $13.6 billion. We would be increasing that budget by 25 percent or by five-tenths of 1 percent of the total federal budget.

HOMELESSNESS AND THE FEDERAL DEFICIT

Senator Cranston. How would you suggest that we deal with those who say that's fine but we have this Federal deficit and bad as the homeless problem is and so forth we just can't afford it? What would be your answer to that?

Mr. Rouse. Well, we wrestled with that. We were very mindful of the budget stringency.

Senator Cranston. Yes, I asked you—among the few things I said was be innovative but don't come up with a big cost.

Mr. Rouse. You surprised us by your admonitions, and they were taken seriously. But we also felt that we just can not keep on seeing this country sink further and further with these low income people, and that's what's happening. This country is in infinitely worse shape today than it was 10 or 12 years ago, and it's steadily getting worse, as evidenced by these new people coming on the street.

Therefore, how could we take on this responsibility without proposing a solution and not just throwing darts at the problem?

And so we took the year 2000 as a reasonable length of time by which a solution could be accomplished or certainly seriously approached. And in doing that, we rationalized the total budget of this amount of $3.4 billion roughly as being a good beginning, a step down the road. Can it do the job?

Nobody has any idea what is going to happen between now and the year 2000. There may be wholly new conditions. Maybe peace will break out, and the $300 billion defense budget will go down to $100 billion or $50 billion, and maybe new funds will be available—maybe prosperity, maybe depression. But we can't forecast all of that. But as things stand today, if we increase the Federal budget by five-tenths of 1 percent, we think we would be making a strong approach to a solution. And I don't think it can be less than that.

Senator CRANSTON. Thank you very much. I'll turn to my colleague, Al D'Amato.

Senator D'AMATO. Thank you, Mr. Chairman. Mr. Chairman, I note with great interest and I raised it at a hearing that was held in New York City this past week, Wednesday, that the State held, the problem that sometimes we don't like to allude to, but when we think about housing for the poor, particularly in our inner core cities, we refer to the housing units generally as "the projects." There's a pejorative attached to it. And with it is attendant all of those terrible kinds of things that we find where we have urban blight, notwithstanding that some of these developments and housing units have been constructed magnificently, are really fine edifices, that have become riddled with crime, riddled with drugs, and places of despair, and your report—one of the few reports that has the courage to say what about the problem of domestic terrorism, and that as part and parcel of providing affordable, decent housing, we also have to make it safe—not just structurally, but create the environment that will work toward creating an environment that will make it possible for decent people to live there in safety without fear, which is so pervasive and which in so many cases in these housing units creates a situation where people can not wait to—they use the word—"escape." They're looking to get out of the project, not because their economics have improved, but because it becomes literally a dreadful, dreadful place to live.

I'm wondering if you could comment on how you propose or should deal with this problem, a problem that is all too often swept under the rug?

DOMESTIC TERRORISM

Mr. MAXWELL. Well, Senator D'Amato, the task force obviously feels as strongly as you do about the fact that we stand to lose a generation of children in some of these urban neighborhoods and projects where kids go to school with bullets whirling about their heads, where they're recruited as drug dealers and prostitutes. We think that the country, particularly with the hijacking that's now going on, understandably is very concerned about international terrorism, and properly so; but we believe that, while it was beyond our competence as a task force to propose detailed solutions for this problem, it does require the highest national attention—whether it's in the form of a commission as we suggest that brings in law enforcement officials and local government officials and people from the Justice Department and HUD and so forth—that there needs to be a concentrated national attention and attack on this problem of domestic terrorism and it needs to take place soon or we will lose these children, and that's a terrible thing.

Senator **D'Amato**. I also note that you indicate some specifics as it relates to the Federal Government. HUD, having the responsibility for the management of those projects that are plagued with these problems, vis-a-vis Federal resources, must attempt to make these places safe and decent and maybe to set a standard of excellence rather than a standard of abhorrence.

Mr. **Maxwell**. We do recommend that, that's correct, that HUD should step in where the local housing authorities are not maintaining a decent environment in a housing project.

Senator **D'Amato**. I would suggest for one that I concur with you and, Mr. Chairman, here we make investments of billions of dollars not only in the construction but thereafter in the maintenance to house people, and there are citizens that we are supposedly working to provide decent, safe, affordable housing that live not only in squalor but in an area that becomes totally overrun, where the terrorism as it relates to the elderly and to the young is equally obnoxious and life-threatening. We've got to address ourselves to this and we do have a unique opportunity, I believe, to urge HUD and to sit with them and to do the kinds of things that will involve the Federal Government as it relates to those areas, particularly where we have the high incidence of drug use and the local police in certain cases really seek to stay out of that area. And that's an abandonment of those people and their hopes and their dreams and their aspirations, and that really creates the cycle of depression, despondency and people who just become so cynical about the system not caring about them and their needs.

Let me just raise one other issue. I have very little to raise, but I'll just touch on the HOP program, 50–50 with the States and locals. I'm probably one of the few people who feel that the 50 percent as it's related to the State is too much, that in most State governments they'll get it into that bureaucracy and it won't filter down. I would hope there would be a little more leeway so that the locals would have first claim on that, the cities, the villages, the towns, et cetera, putting up their matching funds, and thereafter the State the balance. I just leave that with you.

The States don't have zoning. The States in most cases find themselves imposing plans. I think that we will create more of a deadlock. I would hope that we could—I don't want to go into a big thing about it now, but that's been my experience over the years as having been a local official and watching States and locals bang heads together.

We're going to be faced with a problem as it relates to one of your recommendations which I think is absolutely outstanding. That is saying, recognize that the $101,000 level as it exists today for mortgage insurance FHA does not and will not meet the needs in many areas such as Boston, Los Angeles, New York, and other high-cost areas.

How do we answer my colleagues who say;

> Well, somehow this is the subsidization of wealthy people because now we're taking people who earn $35 or $50 or $55 thousand and making available to them this program?

Mr. **Maxwell**. Well, Senator, I don't think that actually in the nine metropolitan areas that that would be affected at the moment, including Providence, Rhode Island, Senator Chafee——

Senator D'**Amato**. Well, we've got another supporter for this bill.

Senator **Chafee**. You already had that.

Mr. **Maxwell**. I do not think that this change will serve wealthy people. I think it serves working people most of whom have to have two incomes to make ends meet as it is.

Senator D'**Amato**. Is there any cost to the Federal Government? Does FHA cost us money?

Mr. **Maxwell**. The FHA makes a profit for the Federal Government. The mutual insurance fund of the single-family program has a surplus of over $4 billion. We assume that, coupled with the adjustable rate mortgage which permits entry into financing because the adjustable rates are lower than the fixed rates, there may be some increase in loss experience and we say that frankly. But we believe two things. First of all, that the increase will not be anything that the FHA cannot handle given its profitability and its reserves; and second, that's what the FHA is for. That's why I make the point that the FHA was created in the beginning to get home financing going again in the 1930's and now we have this problem of the young families who work and have two incomes and still can't afford the American dream.

Senator D'**Amato**. So if we were to experience some small percentage increase as it relates to losses because of expanding opportunities, it would be well worth it as a result of tens and tens and tens of thousands of home buyers who would not have had that opportunity?

Mr. **Maxwell**. Absolutely. And beyond that, although this affects a few areas, the change in the maximum mortgage limit doesn't occur every year. It occurs rarely. It just was raised for the first time in several years to $101,250. There are many other areas of the country that will shortly surpass that limit as well where then their young buyers will begin to be shut out.

Senator D'**Amato**. So rather than have to come to Congress regularly to petition for these increases, we build in a mechanism which you feel is sound financially; that of saying 95 percent of the median income or the median cost for housing; is one that is reasonable and one that will not adversely impact costwise the FHA or the American taxpayer.

Mr. **Maxwell**. That's exactly right.

Senator D'**Amato**. Well, I concur. Again, Mr. Chairman, I want to thank you and the leadership provided by Jim Rouse and David Maxwell and all the members of this task force.

Senator **Cranston**. Thank you very much, Al. I thank both of you. Paul

Senator **Sarbanes**. Thank you, Mr. Chairman.

and localities a great deal of latitude, it would require them to target their housing programs to low-income people, expand housing opportunities for minorities, reduce housing costs by reducing unnecessary regulatory burdens, and meet the special needs of the elderly, handicapped, and other groups. They would also be required to demonstrate progress in meeting local goals.

NEW SOURCES OF PRIVATE CAPITAL: The Task Force has searched for new ways of drawing private funds and the private banking system into financing housing for low-income families. We propose a program that with a modest standby of federal funds and a small seed capital investment could attract substantial private funds at low rates for low-income housing.

--"Benevolent lending": The early success of several benevolent lending programs--where investors deposit funds at rates as low as 3 percent to finance low-income housing--indicates that a very large flow of funds can be developed if the system can be made safe and simple. The underlying appeal of this approach is that the investors can perform a charitable act by lending their funds to help the poor, receive a modest return, and get their money back when they need it.

Charitable contributions in the United States exceeded $80 billion in 1986, up 172% since 1976 (despite the fact that over 40 million taxpayers reported no charitable contributions at all in 1985). This

suggests that there is a large pool of funds to be tapped if the federal government will provide standby support in case withdrawals from benevolent loan funds temporarily exceed deposits once long-term loans have been made for low-income housing at low rates. If the funds are structured properly, there is little risk that this will happen, but standby federal support of $500 million could generate upwards of $2 billion in additional capital for housing poor people.

--Community development banks: Community development banks are another promising way to attract and leverage private capital for low-income housing. Drawing on the experience of several of these banks, most notably the South Shore Bank of Chicago which has turned a profit while revitalizing a neighborhood of 80,000 people over the last decade, the Task Force recommends that the federal government invest up to $5 million in each of five demonstration community development banks. These banks would be expected to operate on a sound financial basis after the initial start-up phase and would repay their federal investment into a revolving fund to support additional banks.

--Housing Opportunity Corporation of America (HOCA): We recommend creation of a new institution--HOCA--to help establish and promote benevolent loan funds and community development banks, to support and nurture the "new wave" delivery system, to gather and distribute information about successful efforts, and to report to Congress and the President on the progress and problems of the new housing delivery system. HOCA would be a federally chartered, nonprofit institution guided by a board of nationally recognized citizens in the fields of development, finance, and delivery of low-income housing.

CONCLUSIONS:

David Maxwell will summarize the rest of our key recommendations, and then we will both be pleased to answer any questions you might have.

But I would like to leave you with one thought. It is that none of what the Task Force has proposed can be carried out, nor is there any chance of reaching our goal of fit, livable, and affordable housing for all Americans, without a renewed commitment and funding from the federal government. Without federal leadership beginning in the 1930's, we would not be a nation of homeowners today. The federal government must now reaffirm its role as leader in finding solutions to the country's grave housing problems. The federal government must shape the national housing agenda--draw attention to needs, set goals, establish standards for performance, and act as a catalyst. But most of all, it must provide adequate funds to do the job. The program we outline calls for modest increases in federal funding to set the nation on a course to meet the goals we hold so important.

A decent place for a family to live becomes a platform for dignity and self-respect and a base for hope and improvement. A decent home allows people to take advantage of opportunities in education, health and employment--the means to get ahead in our society. A decent home is the important beginning point for growth into the mainstream of American life.

Despite our current budgetary constraints, this is the wealthiest nation in the world, with superlative problem-solving capacity. Surely we can match our resources and ingenuity with our concern for the dignity and well-being of our people. I look forward to working with you towards that goal.

Gentlemen, first of all I think there are two great strengths of your report: one is there are a lot of very common sense recommendations. In other words, these are practical. They appear to be doable, although they require a commitment and an investment of resources, but those it seems to me are within ranges that people can think about and can entertain doing.

The other great strength I think is that it is comprehensive and it is on that that I want to ask just a couple of questions.

As I perceive it, you've put together a network to respond to this housing problem as contrasted to a focusing on one aspect of it and coming in with a program dealing with that. Obviously, the homeless, for instance, draws our attention the most. There's a great effort to do programs just for the homeless.

COMPREHENSIVE APPROACH

But let me ask this question. Jim Rouse addressed it to some extent. If we don't deal with this problem comprehensively, won't other aspects of the problem impinge negatively on perhaps the one area that we single out to do something about? In other words, if you try to do something about affordable low-income housing, and don't address the other aspects of it, or home ownership and don't address the other aspects, then each of those that's not being addressed will impinge negatively on the area that you are addressing. So the rationale for a comprehensive approach is almost essential if you're really going to make progress. Otherwise, it's like digging in the sand and you keep sliding back in and you don't move ahead.

How much merit is there to that perception?

Mr. ROUSE. Enormous merit. It's absolutely fundamental that if greater opportunities are provided for people to have home ownership than normally would have it, then they are automatically occupying housing that is not now available and would be available to the people moving up into that rental housing. And as they move up, then other people move behind.

The trickle-down theory was criticized when it was relied upon too much as the solution, but now the trickle-down theory is not trickling any more demonstrates the blockage that occurs when these upward movements don't occur. Not only are the upward movements not occurring because they can't, but the trickle-down is working in reverse. The people who might be moving into housing for sale or moving into rental housing left behind are pushing down into housing that would be occupied by lower income families. And those people are pushing down and being pushed out to become the homeless.

This is really happening in America. This isn't theory. This is occurring. According to the Los Angeles Times, 44,000 families in Los Angeles are living in automobiles or garages. Think of that. This is a dreadful condition in this country. I never like to use the word "crisis" because that implies kind of a fire that's going to be put out and it will all be over. But this is a crunching condition, and every single part of it is affecting the other. And when you speak of a comprehensive solution, that's exactly what it takes.

Senator **Sarbanes**. Is there anywhere in the country today, any region or State, where the housing situation is being significantly more adequately addressed? And if so, why is that the case?

CHATTANOOGA, TN, IS ADDRESSING THE PROBLEM

Mr. **Rouse**. Chattanooga, TN, is making the most significant address because it is taking on the whole problem. It's saying that we are going to lick the problem. This is a rational thing for a city to do, but it's the first city to face up to it. It's said, "By Gosh, we're going to identify all this. We're going to figure out what it takes." When The Enterprise Foundation made that study, it came up with a cost of $200 million and laid it on the table of this business and civic and local government group. We expected them to run. But instead of that, they embraced it and said, "Let's do it." Here for the first time in the history of this country a city is taking on that whole task.

That is what needs to happen. The whole task needs to be taken on. We need to solve the problem. We must stop just fussing with it. We must solve it nationally and we must solve it locally in order to solve it nationally.

Mr. **Maxwell**. If I may, Senator, there are many, many communities around this country, as we point out in the report, where there are wonderful efforts being made to address the housing program and some States have done a terrifically good job and some cities.

What we are saying in the report, however, is that these efforts all over, including I'm sure Chattanooga, do need the Federal help, the Federal catalyst to work. Without that, they will be scattered and they will be small by and large. And if we are going to address this problem in a comprehensive way, we do need that Federal spark to help these efforts succeed.

Mr. **Rouse**. Thank you, David, because I should have said that. The whole Chattanooga program states in the program that it absolutely depends upon Federal funds being available to assist in that, in addition to city and State and private funds. There must be Federal funds to effectuate that program.

Senator **Sarbanes**. Of course, you underscored in your statement at the time you gave it that we're talking about creating and investing in a new housing delivery system and I think that's very important. I think you have to, in effect, provide a script that people can look at and say if we follow that script there's a chance, a fairly good chance—who can tell, many conditions change—but there's a chance we can meet this problem. And I think the opportunity then of calling on people to respond is significantly enhanced if they are responding in that context because they have a sense that they can really do something.

I think if you're talking about cooperative effort, the tremendous partnership you're talking about, this proposal is really to draw all levels of government, a wide sweep of the private sector, and the community into really a joint enterprise to try to address this problem and I think in order to do that you have to hold out the challenge that it's something that contains the possibility of working.

When Senator Cranston put the question to you about the cost, it seems to me another answer we can give is that it represents an investment in the future strength of the country and if we fail to make it the costs are going to be far, far higher in fairly short order.

Clearly we're seeing the social costs already, but the economic cost as well. I was struck by your recommendation, for instance, just one of many, to modernize the public housing inventory and the observation that it can be preserved through a reasonable expenditure for modernization and maintenance. Obviously if we fail to do that, the public housing stock will be lost and the problem will be compounded to that extent.

Mr. ROUSE. The same thing is true of the private housing stock, which is many times larger. Three-quarters of all housing occupied by low income families is privately owned, not Federal, not subsidized—privately owned. That stock is deteriorating. There's a wonderful picture in this report on the first few pages that shows what's happening to a group of houses in the South Bronx. Housing is deteriorating if its preservation is not supported, and it takes Federal money—every one of these things. This new wave is important—but it absolutely requires the investment of Federal money to encourage the new wave to enable it to really spread and grow.

Senator SARBANES. Let me ask some very specific questions. First of all, your matching requirement would apply to the half of the Federal money that went to the States but not to the other half that went to the localities. Is that correct?

Mr. ROUSE. That's correct.

Senator SARBANES. And the reason for that is that the half to the localities to some extent replaces existing programs that don't carry such a burden. Second, I would take it in many instances there's a judgment that the ability of the locality to match is simply lacking since the problem is focused there and the resources are not present.

Mr. ROUSE. That's right.

Senator SARBANES. I have two questions on the decentralization which I think is a good aspect of the report. The first is, how would you ensure that the success stories would be known so that what was happening and working in some places would become current knowledge everywhere so that they could follow good examples and, by the same token, avoid the bad examples?

Mr. ROUSE. There's no way of being sure. We must depend upon the openness of a free society and the interest and curiosity, but we have proposed an enabling force in the Housing Opportunity Corporation, HOCA, which would be given the explicit job—on a relatively small budget of seeing to it that the success stories are recounted, that it does encourage and stimulate the use of the benevolent funds, that it encourages and stimulates and sees to it that the five community development banks are established, and that it reports to Congress on what are the successes and what are the problems. HOCA is specifically for these entrepreneurial purposes.

Senator SARBANES. And how would you avoid one of the problems that's always raised when you talk about decentralization on how do you control abuse?

Mr. ROUSE. Well, again, this report and proposal is reaching out to the institutions and people of the country. It provides, for example, that a city, a locality, in order to qualify for a HOP grant must lay out a program of what it's going to do with that money. It must show what its needs are and how it meeting them.

And although we don't provide for severe penalties, we suggest the possibility that the legislation would provide that HUD will diminish future funds if it doesn't meet these.

The main thing that it does, providing that that has to happen, it immediately says to those constituencies in the localities, "Look, the city government has said that it's going to do this about housing for the poor or about the elderly or about housing codes or about something else," and that builds in that community a constituency that can scream and holler and yell to the city government, to HUD, to the newspapers, that the city is not meeting its responsibility. We are relying heavily upon that function of a free society.

Senator SARBANES. I think that's a good perception. I think this effort to draw the community in gives you one assurance against abuse at the local level because it's going to be, in effect, followed by the very people who stand to benefit.

The other thing I think that may do is get us a higher level of maintenance of this housing once it's done. In other words, if you can involve them in a way that somehow they've invested themselves in it, I think the chances that the housing will be maintained and kept up to level, that the neighborhood will improve, are greatly enhanced.

Mr. Chairman, I would just make this final observation. I think another strength of this report through its comprehensive nature is that it offers the opportunity to maximize the benefits flowing from the use of our money. In other words, I think it greatly enhances the possibilities that we will have the most efficient use and that this interrelated structure that's being created really gives us the best chance for the biggest bang for the buck, the greatest realization of what investment is made in terms of a final product.

I simply, as I did at the outset, want to again thank Jim Rouse and David Maxwell and all of those who served on their task force for this very significant contribution.

Senator CRANSTON. Those are very helpful explanations. John.

Senator CHAFEE. Thank you, Mr. Chairman. And I want to thank Mr. Rouse and David Maxwell for this report and I do think the pictures on page 2 and 3 are very dramatic and I commend them to everybody to see what's happened in one particular section over the course of 6 years. You can actually see the disappearance of private housing.

I would also like to stress two things. One is that this situation is occurring when the country is prosperous. The other day I noticed that the national unemployment rate declined to 5.6 percent, which is the lowest unemployment in the Nation in 10 years. At the same time during the past 6 years, real income has increased for Americans. So we've got this dichotomy of the country being prosperous and yet affordable housing for the poor disappearing.

I'd also like to make one other point and that is, when one community does a good job through a series of circumstances—it might well be that it's in a particular area that isn't enjoying great prosperity and thus has an adequate supply or even an oversupply of low income housing or housing overall—that the Nation is mobile and people flow into that area. That happened in our State of Rhode Island, in the city of Providence between 1982 and 1986, where we had done something for housing prior to 1982. During this period, average home prices rose six times faster than median income. A whole new population of people flowed in from Boston. They saw this low-cost housing and filled it up and thus the opportunities for the poor disappeared in both rentals and purchases.

In 1987 alone, the prices of homes in the State increased by 37 percent. That shows how people flowed into that area, because it was a low-priced area.

On page 9 of your report, Mr. Rouse, you refer to getting rid of unnecessary regulatory burdens. I'm just not sure what you're talking about. What is an unnecessary regulatory burden? Would that be old-fashioned housing codes or what would it be that you were particularly thinking of?

ELIMINATE UNNECESSARY REGULATORY BURDENS

Mr. ROUSE. Well, it's a general phrase that applies to a lot of things. It is things such as housing codes and other local restrictions, but it's also Federal regulatory burdens. I'm not quite sure where that is on that page.

Senator CHAFEE. It's not in the report. It's in your testimony. You list a series of things and in your third line you say, "Reduce housing costs by reducing unnecessary regulatory burdens."

Mr. ROUSE. Well, that's housing codes, building codes, land use controls, zoning limitations.

Senator CHAFEE. You're certainly a man of great experience—do you think many communities' housing and building codes are out of date, aren't adaptable to new materials or don't recognize the qualities of new materials?

Mr. ROUSE. There's a wide diversity of situations. There are some cities in which they are so obsolete—I hate to name cities, but Dallas has a housing code that virtually is a construction code. If people move out and you go in to rehabilitate a house, you must comply with all the requirements as if it were a new house. Things of that kind exist across the country.

In some cities it's not true. In others it is.

Senator CHAFEE. We've got this housing shortage which, as you say, percolates downward. One of the things happening in America is the decline in the number of members in a household. I noticed the other day that we have something like half as many people in a household in the U.S. today as we did during the Civil War. Even in the past 10 years, it's dropped quite dramatically. So even though the population doesn't change, you need more houses for the same population.

What would you think of a realty transfer tax to finance some of this? That's just to stir the pot a little bit here.

Mr. ROUSE. I'll ask David to answer that.

Mr. MAXWELL. Thank you, Jim, for allowing me to answer that question. [Laughter.]

The task force spent some time discussing the possibility of finding a revenue source to pay for what we were recommending, a specific source, whether a realty transfer tax or some other source, and concluded unanimously that it really was not our place to try to tell the Congress how to order its priorities or impose taxes on our citizens. Our mission, as given to us by Senator Cranston and Senator D'Amato, was to identify the housing problems and recommend what we felt were the proper solutions to those problems.

So we decided that it would not be appropriate for us to make any comment on any specific revenue source for that purpose.

Senator **Chafee**. Let me try another one on you. It seems to me Senator Sarbanes was talking about a comprehensive solution and I think comprehensive solution doesn't just involve providing the housing. It means that there's adequate schooling for the youngsters in the projects, that there's a chance for them to get out of an unsatisfactory environment, and thus I believe in scattered housing of low income housing, where possible.

Now you mention in the report some efforts being made—inducements actually being made in Montgomery County to achieve this. What do you do where you've got a wealthy community that has 2-acre zoning and thus the cost of housing is high and the cost of a lot is high? How do you ever get low-cost housing into one of those communities?

Mr. **Rouse**. Well, you cited Montgomery County. That's a good example. They have a provision for zoning that a developer who might be able to get 100 houses on a piece of land can get 120 houses on a piece of lands. But to do that he has to pay, in effect, by building a certain amount of affordable housing and making it available at cost, at no profit—I don't know whether it's no price or a very low price for the land—to reach lower income people. This is comprehensive zoning, we call it, by which other bonuses are provided and in exchange for that developers must perform in a way that does bring in other income groups.

Also, one of the big issues that we had in the housing finance provisions is that we heavily targeted this money 80 percent of the HOP money going to the cities must be targeted to people with incomes below 50 percent of median. The median is about $15,000 average across the country, and that means HOP would be targeted to people with incomes of $7,500 or less. One hundred percent must go to people with incomes below 80 percent of median. Money going to the States is targeted 40 percent below 50 percent, 80 percent below 80 percent, and 20 percent up to 120 percent. The specific point here is, to allow a greater mixture of incomes, still modest. In the housing finance programs and the tax benefit programs there is move flexibility, it's only 40 percent focused on below 60 percent and the balance on up. And this again was highly contested. There was a lot of struggle in the task force. There were people who felt this was wrong, to allow that much to go to people of higher incomes. But the point was that this is the way to mix income groups. You give an essential targeting to lower-income people, but that has to be met in order to get the 60 percent for middle income people.

Senator **Chafee**. Well, I think that's a great idea, but what do you do after the first round? The low income person comes in, obtains the property at a lower cost, and then decides to sell it subsequently. How do you make sure that a low income——

Mr. **Rouse**. That housing has to be preserved.

Senator **Chafee**. How do you keep track of it?

Senator **D'Amato**. I think in many programs, Senator, they already have dealt with that by putting minimum requirements of keeping a residence for at least 5 years or having to pay back all of the profits that are derived. Some are even 10 years. That was one of the initial shortcomings in the 235 program where people would move in for a year and then move out. So that can be, by way of regulation, dealt with so that you don't have that situation.

Senator **Chafee**. You don't have the person move suddenly into expensive housing after the first round?

Senator **D'Amato**. You don't have them come in and make a big profit turnaround because they got in on that basis and then walk out with this profit. That's not what the program is intended for.

Mr. **Maxwell**. That's exactly right. If I could supplement that just very briefly, Senator Chafee, the communities and States, in order to qualify for these HOP funds, have to have a program which addresses the housing needs of the community and one of the elements of that program needs to be the exclusionary zoning and other bars to the provision of affordable housing. This is one of the few strings that we think that the Federal Government ought to maintain on the program. So presumably, if a community does not address these problems at all in its program, then that community will not qualify and that money can go either to another community within the same State or it can go to individual providers of low income housing within the community itself.

The other thing is, as Senator D'Amato said, we contemplated recycling of the money here so that States and localities could actually be able to build up funds to provide in the future for low income housing.

Senator **Chafee**. Well, thank you, gentlemen, very much and the members of your task force.

Senator **Cranston**. Thank you very much, John.

Now the Senator that represents Chattanooga, Senator Sasser.

Senator **Sasser**. Well, thank you very much, Mr. Chairman, and I want to express my appreciation to Mr. Rouse today for the many kind things he's said about the program in Chattanooga. I might say that Mr. Rouse and some of his colleagues are serving as a spark plug to move this program along. We're going to be watching it with great interest. We have the highest of hopes for it. At some juncture, Mr. Chairman, we might even want to take this subcommittee down there and hold some hearings on the spot just to see what sort of progress is being made and to see for ourselves the full promise and potential of this program.

Let me ask you this question. In this very excellent report, Mr. Rouse and Mr. Maxwell, that you've provided us, there's an interesting photograph here of a house in Levittown, NY, that was purchased in 1973 for $47,500. It was appraised in 1987, 2 years ago, at $250,000.

I indicated in my opening statement that housing costs have gone up four times faster than personal income. I think the story of the appreciation in the value of this house that you have dramatized in your very excellent report here points that out. This house has gone up, if my rudimentary arithmetic is correct, about 500 percent in value over the space of a little less than 15 years.

Now if that house was purchased in 1973 by an individual making $20,000 a year, I guess that was a fair salary to afford a $50,000 house in 1973. That purchaser would now have to be making $100,000 a year if his income had kept pace with the price of his house, and I doubt very seriously if that has happened. Actual statistics say it has not.

What accounts for this cost of housing so far outstripping the rise in personal income? Do you have an explanation for that or even a hypothesis? We'll settle for that.

PRICE OF HOUSING IS GROWING FASTER THAN PERSONAL INCOME

Mr. **Rouse**. Well, there are housing experts who I hope you will address that question to, but there are a whole lot of reasons. One is inflation over that period of time and the cost of building materials and labor costs, the actual cost of the same house would be up I don't know how much, but it would be an enormous increase. They're better houses today. They're building better houses in America. We call them better houses and they are better houses. They're larger. There's more in them. Of course, that isn't true of this house.

I guess you must say that the increase in value here is the enormous increase in the value of land, the cost of land. The increase in the cost of land is one of the great problems to home builders now in keeping the price of the total house down. It used to be that a lot cost 15 to 20 percent of the total cost of a house. It's not unusual today in a subdivision for it to be 25 to 35 percent of the cost of a house.

So the lot is worth more. Inflation increases the whole price level of housing. I don't know. I can't contribute as much as I would like to that, but that's a good question for the people who follow us, the home builders and the realtors.

Senator **Sasser**. Do you want to try to follow on and amplify on that some, David?

Mr. **Maxwell**. Well, Senator Sasser, the area where this particular house is located has become extremely prosperous. There's new businesses, new factories, new universities and so forth. And the demand for moderate income housing has just gone out of sight.

Actually I can give you a personal example. My sister bought a house in Long Island 20 years ago for $22,000 which, if she felt like selling it, she could sell for $180,000 today, which is 900 percent. It's just in that whole area, and I assume Senator D'Amato is an authority on that since he grew up there, there is tremendous demand, but the jobs and the incomes that attach to the jobs are not adequate to pay those kinds of prices.

Senator **Sasser**. Well, I'm just astonished that the appreciation in housing or the cost of housing would be going up according to figures that I think you may have in your report and figures that I've seen independent of the report—the cost of housing going up 400 percent faster than income and that's an anomaly that I don't understand because I would think that in some way it parallels the income of prospective purchasers.

David Maxwell, you're the chairman of a major corporation that plays a very significant and I think worthwhile role in the housing sector. You and your distinguished colleague, Mr. Rouse, have posed a lot of ideas for us today. But in your work at Fannie Mae, do you have any ideas beyond this very excellent presentation in this booklet that might guide us along in our work here and in our process?

Mr. **Maxwell**. Well, I think there's a very real role for the private sector and for private corporations in addressing these housing problems. Fannie Mae has tried consistently—it's the charter act responsibilities—to pay due regard to low and moderate income housing, to use all of the tools at our disposal to help to provide low income housing. And we've worked closely with The Enterprise Foundation, for example, in Pittsburgh and the example that Jim Rouse used in New York City and in other places to make good use of the tax credits that were authorized by the Congress in the 1986 Act, which we certainly hope will be extended after 1989 when they are due to expire.

I believe that the private sector—and the private sector also includes the institutional sector. For example, in Long Island, as Senator D'Amato knows, SUNY, the State University of New York, is being very creative and we're working with them to develop affordable housing for their professors and administrators.

I think that the private sector is getting more and more involved in this program for the very reason that you point out, the disparity between incomes and housing prices. And Fannie Mae is trying in our community development programs and in our use of the tax credits and in other ways to blaze a trail and to provide leadership for these efforts.

Mr. **Rouse**. There's a very important change in spirit in the private corporate business community, I think over the last 6, 8, 10 years. There's much more concern about the poor, much more concern about human needs. Many chief executive officers of large corporations, many members of their boards, are involved in housing for the first time. We have received in our foundation substantial grants from business corporations that have never been in housing before. The home builders of Maryland pledged a million dollars last fall and have raised $1 million in these benevolent loan funds on deposit at 3 percent to house the poor. The realtors are taking a great interest in housing the poor. This is new stuff. There's been a kind of an interest in words spoken, but there's a real commitment in the business community today to do something about housing the poor. It's enormously encouraging, and it needs to be harnessed and used.

Senator **Sasser**. That is a very, very encouraging development and I'm delighted to hear that because I think obviously government has a role to play here, as you and Mr. Maxwell have laid out so well, Mr. Rouse, but there is a larger role that business and private individuals can play. I think perhaps in the long run we will be better off if this is the case.

One of your proposals is an IRA type program for first-time home buyers. That has some appeal to me. I'm heartened to see your argument that this wouldn't be a significant revenue loss as a result of this IRA type saving program for home buyers.

Could you elaborate on this somewhat with regard to the revenue impact, as well as the numbers of young people that could be helped? I just think it's important. I'm concerned about low income rental housing, very much so, but I'm also concerned about young people, young couples trying to get into their first home. We have so many examples of broken families and broken homes in this country. I have a theory that if they had a common ownership stake in the home, you would see perhaps marriages being more stable than they have been in recent years. What about this IRA approach?

IRA APPROACH

Mr. **Maxwell.** Well, the feeling of the task force was that if you can invest your IRA in soybean futures or silver or whatever, that you certainly ought to be able to invest it in your home, which is the primary investment of every American family that can afford a home to begin with.

At the same time, we feel that permitting the downpayment for a first-time home buyer to be the IRA or other tax-deferred account will not constitute a revenue loss, because in fact if that family was going to invest in an IRA anyway that that would still be a tax-deferred account, so the net—if they also bought a home, there are some tax advantages to that over time. So actually, the net is at least neutral and in fact could even be positive from a revenue standpoint.

Senator **Sasser.** Well, it appears to me that the IRA approach is almost a win-win situation. There's no revenue losses as far as the government is concerned and it could be used to stimulate economic activity but have first and foremost the salutary social fallout of a young family owning their own home and getting a stake in their own home. I think there's a lot to recommend that concept.

One final question, Mr. Chairman. After the Second World War, we engaged in a great home building boom in this country. We saw the first generation of people who moved from being renters to home owners. I think that it is a very commendable thing, that was fueled—the funds were provided primarily—by the savings and loan industry in this country. I sincerely believe that the S&L's have done a very commendable job in providing mortgage credit over the years.

But in the late 1970's the S&L's fell on hard times. High interest rates caused money to start moving out of the S&L's into the money market funds and other things. So we here in the Congress in our wisdom deregulated interest rates on deposits. But then the thrifts had an enormous spread problem. They were paying more to attract funds than they were receiving from their assets, their portfolios of low-yielding mortgages. So then Congress came in and deregulated on the asset side of the balance sheet and let Federal thrifts go into commercial lending to some degree and gave the green light to the States to deregulate further. We now see to our chagrin in Texas and other places that perhaps that was not a very wise thing to do.

Is there a way to entice the thrift industry back into mortgage lending or should we even try to do this? Would this be a worthwhile approach from the point of view of encouraging people to purchase homes? Do we need a specialized financial institution for housing? Do you want to take a shot at that, Mr. Rouse?

Mr. **Rouse**. Well, I'm not a savings and loan expert. There are people here who may be horrified at what I have to say. I agree with what I sense as being the thinking behind your statement. I think we made a terrible mistake in this country when we deregulated to the extent of regulation Q, and then in order to compensate for that, threw the thrift institutions, in order to survive, into commercial lending for which they were not prepared.

Here we had a marvelous industry that was focused on financing housing and giving special returns to people who invested in housing and we threw it over and we're paying a price for it—we paid a price for it. It's very hard to undo and remake those kinds of desirable institutional structures that once served the country.

They're in there now. The thrift institutions are in there working hard to finance housing and as an industry doing a terrific job. It still is an enormously important thing. Then at the same time, we securitized mortgage debt—which was a good thing, I think, in opening up the markets of money to housing—but it's too bad that isn't all basically being administered through the savings and loans. I have to say my heritage is in the mortgage banking business. So the mortgage bankers and the savings and loan institutions were doing well providing money and financing a thrift industry that gave enormous support to the home building industry. I think we made a terrible mistake.

Mr. **Maxwell**. If I could just add to that, I think that the thrift industry remains a tremendously important element in financing housing in this country. Fannie Mae and Freddie Mac deal with thousands of thrift institutions across the country that are making home loans every day and there is no reason to suppose that thrift institutions can not continue to play that vital role and do it profitably, as so many of them are doing today.

So I think that the removal of regulation Q is an omelette that has been made and can't be unmade and the extension of additional powers to thrifts that flowed from that is something that, of course, is appropriate for the Congress to consider. But I do want to emphasize that thrifts are involved in the mortgage finance business and are involved in a very, very positive and important way.

Senator **Sasser**. Well, thank you, Mr. Rouse and Mr. Maxwell, for your responses to my questions and I thank you for the work of your task force. I think you've rendered a great service.

Thank you, Mr. Chairman.

Senator **Cranston**. Thank you very much.

I just have two very quick questions. One, have you given any thought or do you have any suggestions about any present HUD programs that are not working out well that might be phased out where we might find some of the money needed for the newer programs or the programs you suggest?

Mr. **Rouse**. Well, we did consolidate every program we felt ought to be consolidated into this proposal.

Senator CRANSTON. Does that lead to some savings?

Mr. ROUSE. They are capable of being identified but I'm not capable of doing it.

Mr. JAMES. There were several programs that we recommended be consolidated, not so much because they were necessarily working poorly but that they could be done through the new program, the HOP program, and that would include the rental rehabilitation program which is funded at about $200 million a year, the section 8 moderate rehabilitation program which is funded about $40 million annually in that area, section 235 home ownership program which is dormant at the present time is scheduled to be phased out in 2 years, the housing development grant program which has been funded at about $75 million a year but not funded in fiscal 1988 and also is a dormant program, and the section 312 rehabilitation program which has been putting out about $40 million a year recently.

Senator CRANSTON. What's the total?

Mr. JAMES. A total of about $300 million a year.

Senator CRANSTON. Second, have you made or could you make any kind of an estimate of the revenues the Government can anticipate picking up as housing is stimulated, more people go into that business and do more in that business, and the building trades pick up and ramifications of all that?

Mr. ROUSE. Can you do that?

Mr. MAXWELL. No.

Mr. ROUSE. Tony, can you do it?

Mr. FREEDMAN. Mr. Chairman, we would like to make those sort of estimates. The Joint Committee on Taxation never accepts them. They simply don't believe the tax policy influences economic policy. But we do know that there would be a pickup in revenue in significant dimensions.

Senator CRANSTON. Thank you. Are there any further questions? I want to thank you both for a stellar performance, and the whole task force, for all you've done. We've had a wonderful seminar with you this morning. We've learned a lot. You have expanded upon the information you've made available through your task force. I'm greatly heartened by the attendance we had this morning and by the support that was evident this morning by members on the Democratic and the Republican side of this table. It bodes very well for our moving ahead as we shape legislation based upon your very, very fine recommendations. I again thank you not just for us but for the people of our country for the service you've rendered. Thank you very much.

We will now go to the next panel. I'd like to ask the next panel to please take their seats at the table. Because we have necessarily devoted so much time to the people who were just before us, we're going to have to move with greater dispatch now I regret saying. Your full testimony will go into the record, but if you could summarize your opening statements in not more than 5 minutes I would be very grateful. We will let you know when the 5 minutes are up. We would then have time for questions a bit. We won't have time for many questions if you exceed that time limit.

I thank you very much. It's very important to us to have the advice and the judgments that you can now make in regard to the task force and you have made in your prepared statements and your testimony I know will be of immense value to us and we're deeply grateful to each of you.

We will start with John M. Teutsch, president of Mortgage Bankers Association.

STATEMENT OF JOHN M. TEUTSCH, PRESIDENT, MORTGAGE BANKERS ASSOCIATION

Mr. TEUTSCH. Thank you, Mr. Chairman.

My name is John Teutsch. I'm president and chairman of the executive committee of CompuFund/Network Funding Corp. and I also serve as president of the Mortgage Bankers Association.

The time has come to reassess and reinvigorate the national housing policy. MBA applauds the efforts of the National Housing Task Force in its report which has provided specific, tangible recommendations for a national housing policy.

Home ownership affordability can be enhanced in three ways. First, the home buyer must be able to afford the monthly payment. Interest rates are the key to affordability. Second, underwriting criteria affect whether a borrower will qualify. Finally, the downpayment is often a hurdle for most potential home buyers, particularly first-time home buyers who cannot tap into accumulated equity from their home.

The following recommendations made by the Task Force address these affordability components.

Adjustable rate mortgages have proven to be strong tools in reducing initial mortgage interest rates. Eliminating the statutory volume limitation on the FHA-ARM program will make it available to more potential purchasers, in more markets, with more lenders offering ARM's.

MBA also supports amending the FHA-ARM program to allow interest rate adjustments of 2 percent per year with a lifetime cap of 5 percent. This would give consumers a wider choice of affordable options.

MBA supports reducing FHA downpayment requirements to 3 percent of the first $50,000 and 5 percent of the balance.

MBA supports expanding the eligibility of savings invested in IRA, 401(k), et cetera, tax-exempt or tax-deferred savings accounts for investment in downpayments on homes for first-time home buyers.

While MBA supported the recent increase in the FHA maximum mortgage amount, this step did not fully address the high-cost factor in a number of markets. Therefore, MBA supports setting the FHA maximum mortgage amount of 95 percent of an area's median sales price without a cap. And thank you, Senator D'Amato, for your strong statement in that regard.

MBA would also like to add other comments. MBA has concerns if the report intends that FHA should simply serve first-time and low income borrowers. We firmly believe that it is appropriate for FHA to serve moderate and middle income borrowers, as well, within the limits targeted by the maximum mortgage amount.

MBA opposes any attempt to retarget the nonsubsidized FHA insurance programs exclusively to first-time home buyers, inner-city dwellings, or by imposing income limits. To continue to be actuarially sound, FHA's operations must balance risk by attracting a variety of borrowers.

MBA is spearheading a broad-based initiative to streamline the entire process of making, financing and servicing mortgage loans. All elements of the mortgage loan origination and servicing relationship are being examined to determine where unnecessary costs occur. The objective is to provide high quality service, yet to minimize unnecessary, duplicative, and conflicting requirements.

MBA strongly opposes any further decrease in the deductibility of either mortgage interest or real property taxes. Deductibility of mortgage interest and property taxes is integral to the fabric of this Nation's commitment for promoting and preserving home ownership for the largest possible number of citizens.

As the Task Force report points out, financing rental multifamily housing requires a variety of approaches. Federal, State, and local governments must share the responsibility for providing suitable multifamily rental housing. The governmental role, however, should be enhanced by the participation of private nonprofit and for-profit entities.

As general principles, MBA would like to make the following comments:

Existing housing should be used and preserved, and new housing must be constructed where necessary.

The very poor are best served through low-rent public housing. The current supply of public housing is inadequate. The need should be met through construction or acquisition of new public housing units, as well as the repair and modernization of existing housing units.

A national scale and a more universally workable housing assistance program for the low to moderate income is needed.

Our printed statement contains a number of specific recommendations that we believe will encourage multifamily rental housing ownership and production.

MBA commends the National Housing Task Force and the Subcommittee for facing up to the magnitude of housing problems and challenging all of us to set our collective will to the task of doing whatever it takes to address the nation's housing dilemma. The mortgage lending community wants to commit its energy, skill, and resourcefulness to providing adequate housing for all citizens.

Thank you very much for the opportunity to testify today and we'll appreciate any questions you may have.

[The complete prepared statement of Mr. Teutsch follows:]

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Mortgage Bankers Association of America

STATEMENT OF

John M. Teutsch, Jr., CMB
President & Chairman of the Executive Committee
CompuFund/Network Funding Corporation
Seattle, Washington

on behalf
of the

Mortgage Bankers Association of America

before the

Subcommittee on Housing and Urban Affairs
Committee on Banking, Housing and Urban Affairs
U.S. Senate

and

Subcommittee on Housing and Community Development
Committee on Banking, Finance and Urban Affairs
U.S. House of Representatives

Joint Hearings on

Homeownership Affordability, Low and Moderate Income Housing,
and Special Needs
for the Homeless, Handicapped, and Elderly

April 12, 1988

Mr. Chairman and Members of the Subcommittees, my name is John M. Teutsch, Jr. I am President and Chairman of the Executive Committee of Compufund/Network Funding Corporation, located in Seattle, Washington and I am also serving as President of the Mortgage Bankers Association of America (MBA).* Accompanying me is Burton C. Wood, MBA's Senior Staff Vice President and Legislative Counsel. MBA appreciates the opportunity to appear before you today to testify on the issue of housing affordability.

Nearly 40 years have passed since the Federal government in passing the Housing Act of 1949 established a comprehensive national housing policy. That Act set forth as our Nation's goal "a decent home and a suitable living environment for every American family."

The time has come to reassess and reinvigorate the Federal government's role. We must review the historical role that the Federal government has played, and the diminishment of that role over the course of the 1980s. Then we must look into the future to determine what is the appropriate role for the Federal government to play and how to expand and build upon the role of state and local governments and private enterprise in fostering homeownership and preserving affordability and availability of rental housing opportunities.

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*The Mortgage Bankers Association of American is a nationwide organization devoted exclusively to the field of housing and other real estate finance. MBA's membership comprises mortgage originators and servicers, as well as investors, and a wide variety of mortgage industry-related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, selling, and servicing real estate investment portfolios. Members of MBA include:

- Mortgage Banking Companies
- Commercial Banks
- Mutual Savings Banks
- Savings and Loan Associations
- Mortgage Insurance Companies
- Life Insurance Companies
- Mortgage Brokers
- Title Companies
- State Housing Agencies
- Investment Bankers
- Real Estate Investment Trusts

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REPORT OF THE NATIONAL HOUSING TASK FORCE

The National Housing Task Force in its report, "A Decent Place to Live", (hereinafter referred to as the "Report") has made a serious effort to provide specific, tangible recommendations for a national housing policy. This Report's emphasis on the need for a Federal presence in the housing markets is exactly what is needed. The Federal government has a responsibility to fulfill the expectations for decent housing for all our people. MBA strongly concurs in the Report's finding that the Federal housing programs now in place are a sound foundation on which to build our renewed commitment to housing.

While the Report provides valuable proposals for the building blocks to rebuild national housing policy, MBA would like to stress that the most effective plan for housing should include a careful mix of Federal, state, local, and private initiatives. The Report rightfully points out the key role that private entities, in a working partnership with all levels of government, have played in housing. MBA believes private sector participation is essential to providing housing opportunities on a national scale.

AFFORDABILITY

Affordability means vastly different things to the homeownership and rental markets. In looking at the issues of housing affordability in the 1990s and into the next century, Congress must consider a spectrum of needs and problems that face Americans. For those with no income, there is still a right to shelter. For those with low income, Congress must look at the cost burdens that affect these families and the rental assistance that is needed to house this sector of the population effectively. For those of moderate income, Congress must review rental opportunities as well as the potential homeownership opportunities that this component of the population aspires to or needs. For those who are fortunate enough to be of better means--those in the middle and upper income ranges--Congress has wisely provided for a number of mortgage credit programs and federally related entities whose mission is to enhance mortgage credit availability

and affordability; these efforts address the important homeownership objectives that this class of citizens share.

Federal Budget Deficit Reduction

The government should move toward reducing the Federal budget deficit, reducing direct Federal borrowing, and reducing real interest rates. It would be difficult to identify any single step that would be of greater long-term benefit to improve the affordability of housing.

Specifically, Congress and the Administration are urged to evaluate intensely all spending programs, including Social Security, defense, and cost of living adjustments throughout Federal programs, with an objective of achieving substantial spending reductions that will be shared equitably throughout the economy.

If spending cuts are insufficient to achieve effective deficit reduction, Congress should be prepared to increase taxes. Any tax increases, however, should be broad-based and not focused on any one sector of the economy.

HOMEOWNERSHIP AFFORDABILITY

For potential homeowners, affordability can be enhanced by addressing the following components. First, interest rates and their impact on the ability to afford a monthly principal and interest payment for a mortgage are perhaps the single most important feature in assessing and addressing affordability. Second, the downpayment is often a hurdle for potential homebuyers, particularly first time homebuyers, who cannot tap into accumulated equity from their home. Finally, transaction costs, that is those costs that affect the processing and origination of a loan, as well as the continued servicing of a loan, should be scrutinized to determine whether streamlining of these transaction costs can reduce not only upfront closing costs but also long term interest rates by reducing administrative costs.

Federal Mortgage Credit Programs

MBA believes that the Federal mortgage credit homeownership programs have served their mission well. The efficiency of these programs has ensured a steady supply of mortgage credit at the most affordable interest rates possible through the low downpayment mortgage insurance programs of the Federal Housing Administration (FHA) and the no downpayment Veterans Administration (VA) home loan guaranty program. Affordability is also enhanced by the access to the secondary mortgage market provided by the mortgage-backed security (MBS) program operated by the Government National Mortgage Association (GNMA).

Furthermore, the secondary market activities of the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA) enhance liquidity and efficiency and, thus, promote affordability for conventional mortgages.

These federally related mortgage programs and operations all serve their objective well. They promote efficiency and standardization. They enhance affordability and availability of mortgage credit. And they are superb examples of government initiative and private enterprise working together to achieve the valid public policy objective of promoting homeownership.

MBA concurs in the Report's conclusion that the efficient operations of these programs and entities should not be curtailed--either directly through program restrictions or indirectly through the imposition of excessive fees.

Retargeting of FHA Mortgage Programs

MBA opposes any attempt to retarget the non-subsidized FHA insurance programs to first-time homebuyers, inner-city dwellings, families with gross incomes of $40,000 or less, or to impose any other type of credit rationing. MBA strongly opposes modifications that would reduce the ability of moderate- and middle-income homebuyers to use FHA programs. These proposals would prohibit refinancing, increase downpayments, or prohibit financing for closing costs or the

up-front mortgage insurance premiums, thus requiring borrowers to accumulate significant cash amounts in addition to the cash downpayment required.

Maximum mortgage amounts set by Congress limiting the maximum mortgage that FHA may insure are a reasonable method of appropriately targeting FHA. Currently, the FHA program limits mortgages to $67,500 with high cost area increases up to $101,250. The average home sales price in 1986 was $100,907 and the median price was $82,500--illustrating that the FHA program is already targeted to the modestly priced American home.

FHA is an essential financing alternative for moderate- and middle-income homebuyers of all types, including, but not limited to, first-time homebuyers. FHA provides a steady source of low-downpayment, long-term financing. FHA loans are available with a standardized mortgage insurance premium in all regions, including localities that are experiencing economic downturns.

MBA supports continuation of FHA as a low-downpayment program. Even with the liberal downpayment requirements that apply to FHA loans, default costs under the program are completely covered by the existing up-front mortgage insurance premiums.

The amount of the downpayment is a key variable in the homeownership affordability equation. For many potential homebuyers, accumulating the downpayment plus closing costs is the major obstacle preventing them from stepping onto the first rung of the homeownership ladder. The FHA program, by allowing people to buy with less than a 10 percent downpayment, supports higher levels of homeownership and higher levels of housing market activity.

Providing high loan-to-value ratio loans has not adversely affected the actuarial soundness of the FHA program. In 1987, MBA commissioned a study by Peat, Marwick, and Main which concluded that the FHA insurance fund is in good financial condition. In fact, the study concluded that the current mortgage insurance premium of 3.8 percent could be lowered to 3.4 percent based on FHA's own actuarial standards.

Income Limits

MBA opposes limitations on borrowers by income because such limitations could potentially destroy the current risk balance that has served FHA so well and helped to maintain the FHA as a viable, self-supporting program.

Any reanalysis of FHA's role should carefully balance the potential increase in risk factors against purportedly anti-competitive forces. FHA's successful operations presently balance risk by attracting a variety of borrowers. Any restructuring that limits the availability of FHA to lower income borrowers poses the possibility of increasing risk to FHA and, therefore, contingent liability to the Federal government.

Any restructuring that reduces the attractiveness of FHA to borrowers will inhibit affordability. Available cash for downpayment, premium payment, and closing costs pose the greatest impediment to first-time homebuyers, while underwriting criteria affect lower income borrowers to a greater degree.

Equity (downpayment), not income, is the chief risk determinant for future defaults. However, if equity requirements for FHA were increased, borrowers would be deprived of the principal feature that attracts them to FHA. These borrowers would either be delayed in achieving homeownership while they accumulated cash or be denied homeownership opportunities altogether. Many of the people these changes would most harshly affect would be first-time homebuyers, owners in regions with slow appreciation or even depreciation in housing prices, and homeowners with frequent job transfers.

In 1986, of borrowers with incomes less than $40,000, FHA served three times the number of borrowers in that income range than were served by conventional mortgage insurers. That represents over 220,000 mortgagors who probably would not have been able to finance a home purchase without the availability of FHA insurance.

A recent report (released November 1987) commissioned by the Mortgage Insurance Companies of America (MICA) indicated that:

> "In 1986, 60 percent of FHA originations were to borrowers earning over 120 percent of the national median income, while 42 percent were to borrowers earning over 140 percent of the national median income. In some metropolitan statistical area (MSAs), two-thirds of FHA originations are to borrowers earning over 140 percent of MSA median income."

These statistics merely document the well-known fact that today a household needs a relatively high income in order to qualify for a mortgage to purchase a home. In other words, while interest rates have declined since the 1982-1983 period, the Nation continues to be confronted with a serious homeownership affordability problem. Evidence of this is the fact that the homeownership rate (the percent of households owning the home in which they reside) has fallen from 65.6 percent in 1980 to 63.8 percent in 1986. Had the ownership rate remained at the 1980 level, there would be approximately 1-1/2 million more households today owning their own home.

The affordability situation is even more severe in some of the Nation's largest metropolitan areas. In Boston, an income of about 180 percent to 220 percent of the median household income is required to purchase the median priced home. In areas such as New York City and Los Angeles, the affordability problem is equally severe.

In 1986, the Congressional Research Service completed a study that indicated that FHA borrowers with incomes over $40,000 are concentrated in areas where $40,000 is needed just to buy median priced housing. In periods of higher interest rates (rates over 13 percent), a family with an income of $40,000 would have had trouble qualifying for a $70,000 mortgage.

FHA borrower characteristic data for 1987 indicate that borrowers with incomes over $40,000 should not be considered wealthy. Six of every 10 FHA borrowers were first-time homebuyers. These borrowers typically do not have cash reserves that result from the appreciation generated from owning a home. In 60 percent of cases where the borrowers were a husband and wife, both worked.

The FHA program addresses two key factors of affordability--the downpayment and the underwriting criteria. By accepting downpayments of less than 10 percent, and imposing more liberal underwriting standards, FHA promotes higher levels of homeownership and higher volumes of activity in housing markets, an important sector of the overall economy.

Refinance Opportunity

FHA should continue to be available for borrowers who need to refinance existing loans. Because of the unprecedented decline in interest rates during 1986, FHA incurred a tremendous increase in the number of refinance transactions just as the entire industry did. As a result, MBA believes the 25 percent level for refinancing for 1986 is an anomaly and is not indicative of a change in FHA's program direction. In that regard, it appears that FHA refinance activity has already returned to more traditional levels (about 10 percent).

Because many FHA refinances are made solely to lower the interest rate on existing FHA mortgages and, therefore, FHA's risk, MBA does not believe any change in refinance policy is needed. Finally, in the case of cash out refinances, FHA limits borrowers to 85 percent of the value, which is comparable to conventional standards, and furthermore, does not permit investors to take cash out of transactions.

Adjustable Rate Mortgages

Adjustable rate mortgages (ARMs) have proven to be strong tools in reducing initial mortgage interest rates. Thus, an ARM can be a significant vehicle for overcoming affordability hurdles especially in periods of high interest rates. If appropriately underwritten, there is a reduced risk of default, particularly when paired with borrower protections that cap the level of annual and lifetime increases in the applicable mortgage interest rate. ARMs have proven to be so popular that in the recent interest rate environment they have represented a lion's share of the mortgage volume that has been originated. MBA has several specific recommendations, some of which have been incorporated in the Report regarding ARMs.

The statutory limit on the aggregate number of adjustable rate mortgage loans that the Federal Housing Administration (FHA) may insure in a given year should be eliminated. Although the 1987 Housing Act, P.L. 100-242, increased this limit from 10 percent to 30 percent of the prior year's activity, recent experience in conventional markets indicates that ARMs constitute a much higher share of the total mortgage volume. **MBA concurs in the recommendation included in the Report to eliminate this volume limitation, which will make the FHA-ARM available to more potential purchasers and it will result in having this home financing vehicle available in more markets and offered by a greater number of lenders.** There is a hesitancy on the part of lenders at present to make FHA-ARMs and incur the startup costs of educating their own personnel, because at any given time the volume limitation might be reached, particularly when market activity is at high levels.

MBA urges amendment of Section 251 to authorize an FHA-ARM program with interest rate adjustments of 2 percent per year with a lifetime cap on potential increases of 5 percent. This recommendation is included in the Report. This would give consumers a wider choice of options with a range of prices. Fixed rates are generally priced at the upper end of market rates, because these are long-term instruments with no interest rate adjustments. An ARM with a 1/5 adjustment would be priced at a somewhat lower mortgage rate than fixed rate mortgages, because the annual adjustments would be limited to 1 percent. A 2/5 ARM, however, would enjoy an even lower initial rate, because investors could anticipate adjustments more in line with the market rate if interest rates increase.

While the 1/5 ARM has been utilized heavily at times, there have been other periods when it has lain dormant. This has occurred when the interest rate spreads have been narrow--that is, the difference in the price between a fixed rate mortgage and a 1/5 ARM was so small that borrowers opted for the certainty of the fixed rate mortgage over the relatively small savings afforded by the 1/5 ARM. The authorization of a 2/5 ARM will result in lower initial interest rates and thus will offer a more viable and affordable mortgage option.

At the time that the 1/5 FHA-ARM was authorized, ARMs were a relatively new product and it was appropriate to be conservative. However, there is now more experience with ARMS. The bulk of the conventional ARMs now originated allow 2/5 adjustments. Thus, there is a strong track record on these instruments to review potential risks.

As recommended in the Report, MBA supports authorizing ARMS for the VA Home Loan Guaranty program without a statutory limit on the number of loans that can be guaranteed. Conventional and FHA mortgage markets' acceptance of ARMs has demonstrated they are beneficial. With appropriate borrower safeguards, they are a proven alternative that can address affordability.

The creation of a variety of viable FHA/VA ARM products will spur development and acceptance on the secondary market of securities backed by such loans. This will give lenders who operate solely in the secondary market greater opportunities in making available mortgages that are more affordable to their moderate income customers. ARMs, while not a suitable mortgage choice for everyone, have proven to be both popular and beneficial, because they promote affordability and permit borrowers to choose from a range of options that best suit their particular needs.

Preservation of the Deductibility of Mortgage Interest and Property Taxes.

MBA strongly opposes any further effort to decrease the deductibility of either mortgage interest or real property taxes. In 1986, for the first time, Congress placed a cap on the mortgage amount eligible for the mortgage interest deduction. While the cap established at $1 million is not likely to affect many, except those in the upper income ranges, MBA is concerned that this limitation establishes a precedent and could weaken the long term viability of the mortgage interest deduction.

The mortgage interest deduction represents to its opponents a $34 billion opportunity to increase tax revenues. However, for homeowners to whom this deduction is an opportunity to ease their homeownership cost, it is a pivotal piece of the Federal homeownership support package. As such, the mortgage interest deduction should not be limited further.

In 1986, Congress considered eliminating the deductibility of real estate property taxes. Again, MBA supported Congress' decision to retain this deduction for homeowners.

Already this year, there are rumors and indications that the tax writing committees are reviewing the home mortgage interest deduction. MBA strongly opposes any effort to put an annual cap on the amount of mortgage interest that is deductible. What could look reasonable at the time a provision is enacted can quickly become outdated when interest rates move to higher levels. Similarly, a limitation set at a certain sales price may seem appropriate at the time a law is enacted. Again, limitations thought to be reasonable at the time of enactment can quickly become anachronistic. Furthermore, limitations discriminate against areas of the country that already suffer from high housing costs, unless limitations are imposed in such a way as to accommodate housing price differences.

Lower Downpayment

MBA supports the Report's recommendation that FHA downpayment requirements be amended to 3 percent of the first $50,000 and 5 percent of the balance. Current law requires an FHA downpayment of 3 percent of the first $25,000 and 5 percent of the balance. Adoption of this recommendation will reduce the downpayment on a $50,000 mortgage from the current law requirement of $2,000 to $1,500. This is a modest change, but will be particularly helpful to first time borrowers.

While not included in the Report's recommendations, this Subcommittee should consider whether it would be appropriate to increase the sales price amount for modestly priced dwellings upon which a flat 3 percent downpayment is required. Presently, this decreased downpayment requirement applies to dwellings priced at $50,000 or below. This provision was enacted in 1983 and therefore mortgages originated under this provision have established a track record upon which to assess their risk.

Eligibility of Tax Deferred Retirement Plans for Investment in Housing Downpayments

MBA supports the eligibility of savings invested in IRA, 401(k), etc. tax-exempt or tax deferred savings accounts for investment in downpayments on homes for first time homebuyers. This recommendation is included in the Report, and MBA concurs wholeheartedly in the recommendation contained therein.

FHA Maximum Mortgage Amount

While MBA supported the provision, which was included in P.L. 100-242, increasing the FHA maximum mortgage amount, this step did not fully address the high-cost factor in a number of markets, because the provision placed a mortgage cap of $101,250 even where 95 percent of an area's median sales price exceeds that amount. The maximum mortgage ceiling is intended to target FHA activity to moderate-income homebuyers. However, it is important that it have generally equitable applicability for the entire country. While the indexing concept introduced in 1979 is supportable and helpful, the maximum cap of $90,000 has served to exclude many middle-income families in high-cost areas. The scarcity of FHA mortgage activity in many of the metropolitan areas around New York, San Francisco, and other high-cost cities documents this problem. By redefining the ceiling, FHA activity would generally be confined to the lower half of the housing market, but would be available on an equivalent basis to homebuyers regardless of where they live.

Therefore, MBA supports adoption of a formula that would set the FHA maximum mortgage amount at 95 percent of an area's median sales price (calculated by county or local Metropolitan Statistical Area, whichever is greater) without a limiting ceiling. This recommendation is included in the Report. MBA, however, has reservations about, and would like to examine further, the implications of the Report's recommendation that the maximum mortgage amount be calculated separately for new and existing homes.

Streamlining the Mortgage Process

MBA, together with other lender, investor, and housing groups, is engaged in a major broad-based initiative to streamline the entire process of making and financing mortgage loans. If serious inroads can be made into the costs and the lengthy time it takes to make a loan, then significant progress can be made in reducing housing costs.

While simplification of the mortgage process has appeal to all participants, it will be particularly beneficial to homebuyers. The purchase of a home is usually the most important transaction into which the typical person enters. It is not surprising that many approach the mortgage process with considerable trepidation. What is disappointing is that many homebuyers leave the closing table frustrated and confused about the complexity of the current process.

An overly complicated mortgage system also creates unnecessary expenses for the mortgage finance industry: for lenders, builders, and Realtors. Processing time, training, and staffing costs in general have risen dramatically in order to keep up with the new mortgage products and regulatory requirements that are being developed and modified. Investors, insurers, and government agencies must spend valuable staff resources answering repetitive questions about policy interpretations and required forms.

The current mortgage process holds promising opportunities for streamlining in two key areas: (1) forms used to process cases, and (2) the processing requirements themselves.

The number of forms required for the origination of a loan is probably the most visible evidence of the unnecessary complexity of the current process to the public. The borrower application, verification forms, and closing documents are three examples of areas where forms can be eliminated, consolidated with another form, or developed into a common form acceptable to all originators, insurers, and investors.

Senator **Cranston**. Thank you very much for the substantive contribution which was great, and for your brevity which was great.

Mr. Stuard, who is the president of the National Association of Home Builders, Dale Stuard, and a constituent of mine. I welcome you. Mr. Stuard appeared with us when we had a hearing last week in Los Angeles and I'm grateful for that, too.

STATEMENT OF DALE STUARD, PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. **Stuard**. Thank you very much.

Mr. Chairman, on behalf of the 150,000 members of the National Association of Home Builders, I'd like to thank you for this opportunity to comment on the report of the National Housing Task Force and its recommendations.

This report should be on the required reading list for all Americans, especially those with the power to make changes. That's because America is faced with a paradox. Even as most Americans enjoy the highest standard of living in the world, there are others whose dreams of a decent home are just dreams and rapidly fading dreams at that.

The National Housing Task Force's report says it's time to raise these issues to a "compelling level of concern * * * to the highest priority of attention and commitment." And we agree. It's time for the United States to again make housing a national priority.

Our written statement, which I would like to request be made a part of the record, covers the ten major areas of the task force report. In the interest of time, I would like to focus on only a few of these.

Senator **Cranston**. That will be a part of the record.

Mr. **Stuard**. Thank you.

Perhaps the two most vital areas addressed by the task force report are the FHA-VA issues and housing tax policy.

The FHA-VA programs should continue to provide a major role to enable young families to share in the American dream. We strongly support the report's recommendation that the Government should increase access to FHA insurance and modernize the VA program. Realistic mortgage limits, market demand availability to alternate mortgage instruments with adequate consumer safeguards and less restrictive downpayment requirements would assist in removing major impediments for young home buyers of modest means—impediments which all too often prevent these families from entering the mainstream of today's society.

But a housing policy can not exist in a vacuum, and it is going to be impossible to enact meaningful housing legislation without some tax changes.

The task force favors continuation of mortgage revenue bonds, and mortgage credit certificates, and we firmly agree. While neither is a new idea, both must be dealt with this year to prevent their expiration.

Further, we believe Congress should reaffirm strong support for the continuation of the deductibility of mortgage interest and real property taxes.

Other tax initiatives which address the affordability problems for home buyers, which we support, include investments by IRA's in homes for first-time buyers or establishing an individual housing account.

For low income housing, we support the task force proposals for 20-year depreciation on low income housing and exemptions from the passive loss restrictions. Clearly, Mr. Chairman, more must be done to attract investment to this needed form of housing.

For moderate income renters, we believe tax incentives are needed, as well, to make up for the harsh treatment of rental real estate in the 1986 tax act, which has contributed to the recent downturn in multifamily housing starts.

A third major area focuses on infrastructure. We would be remiss not to mention our disappointment in the lack of major coverage of this piece. However, as you know, Mr. Chairman, the various impact fees and slow growth and no growth restrictions in parts of California have pushed the total cost of these fees to an average of $20,000 per home, an amount equal to the entire cost of a home not too many years ago when I built my first home.

Further, Mr. Chairman, we applaud the centerpiece of the report, the housing opportunity program, and welcome an opportunity to work with you in improving this concept.

In closing, Mr. Chairman, it is time the housing and tax committees got together and addressed housing problems and home ownership issues jointly rather than individually. Now more than ever, we need a comprehensive solution to these complex problems. In fact, such an approach may be the ultimate key to devising and enacting housing policies that truly reflect our national concern for decent, affordable housing, policies that will fulfill the promise of the American dream.

Mr. Chairman, we support the efforts of the task force in preparing this report and look forward to continuing our relationship with you and others on the committees as we develop legislation to guide our Nation's housing goals for the 1990's.

[The complete prepared statement of Dale Stuard follows:]

Increased processing requirements have resulted largely from the foreclosure and loss problems of recent years. While improvements have been made to develop uniform underwriting requirements among the various insurers and investors, there still remain numerous variations that make the current process too complicated. It should be emphasized that underwriting variations will always (and should) remain because of the different strata of buyers served by the various players in the housing market. However, at a minimum, each federally related agency could use the same method to perform a particular processing requirement.

The closing of a mortgage is highly complex and presents many opportunities to develop more standard mortgage documentation. For instance, consideration should be given to consolidation of certifications and warranties. At present, borrowers are required to sign a variety of affidavits and certifications at closing. It may be possible to develop generic warranties and certifications. Perhaps, too, we could hope to develop model legislation permitting the release or satisfaction of mortgages by affidavit after proper payment and notice. Another step would be to establish a standard, adequate length of time for surveys. Often on refinances and other transactions, a survey will have been performed within a year of the new closing. In such instances, it should not be necessary to undergo the time and expense of a full new survey.

Servicing loans (where lenders collect payments, pay tax and insurance premiums, and pursue collections and, where necessary, foreclosure on defaulted loans) involves important opportunities to address costs and inefficiencies.

The ability of mortgage lenders to transfer (sell and buy) mortgage servicing rights allows the industry to operate efficiently, and to make loan originations possible in a large number of local communities while concentrating servicing in fewer areas. These transfers help keep mortgage costs low by enabling large-scale, specialized servicing firms to take advantage of economies of large-scale operations.

Congress should review all elements of the servicing relationship to examine where unnecessary costs occur. The objective should be to provide high quality

service, yet to minimize unnecessary, duplicative, and conflicting requirements among different programs or under state law or regulation.

Adequate Staffing and Training for FHA, VA, and GNMA.

MBA is concerned that in the effort to cut the cost of operating the FHA, VA, and GNMA-MBS programs there has been too stringent a reduction in staffing and training of personnel for these vital programs. Not only have these programs suffered from quantitative staff cuts, but the quality of the staff has been reduced significantly. Training opportunities have been slashed and when new staff have been hired their salaries have been at much reduced levels below that which private enterprise has been able to hire staff of equivalent quality. This problem has been exacerbated recently with the unprecedented loan processing volume spurred by affordable interest rates. Congress should appropriate sufficient training funds and authorize adequate staff levels for these programs.

Cutting the quantity and quality of staff for these programs is counter-productive. The FHA single family mortgage insurance and GNMA-MBS guaranty programs are completely self-sustaining—user fees cover administrative costs as well as default losses and reserve accumulation. With direct endorsement (FHA) and prior approval (VA), lenders have assumed the burden of processing and underwriting FHA and VA loans. The task on the single family side has been for FHA and VA to review the quality of the product originated by FHA VA lenders. To the extent that FHA, VA, and GNMA have been unable to review that product because of staffing cuts, quality could potentially suffer.

In the multifamily FHA programs, however, there are other problems due to lack of staffing. FHA has made it a consistent practice to encourage lenders to process loans under the coinsurance program. Coinsurance lenders are entitled to take on a greater degree of the processing and underwriting for their projects, because they have assumed a share of risk in these multifamily projects. However, MBA is concerned that other lenders who want to utilize the full insurance multifamily programs, where HUD performs the processing and underwriting analysis, have been subjected to significant delays, because HUD has insufficiently staffed the full insurance multifamily programs. For the most part, this conscious decision to favor the coinsurance program over full insurance has hit smaller multifamily lenders (who generally serve less sophisticated market areas) and has hit the more risky loans in older urban areas, which coinsurers are hesitant to make.

MULTIFAMILY RENTAL HOUSING AND AFFORDABILITY

Rental housing affordability and suitability present a uniquely different set of circumstances to those who either choose to live in rental housing or simply cannot, and perhaps will not ever be able, to afford to purchase their own homes. MBA would like to emphasize here that the Federal government role should provide for a spectrum of needs in the area of multifamily rental housing.

Financing rental multifamily housing requires a variety of approaches used alone or in conjunction with one another. These approaches include--insurance programs, subsidized below-market interest rate programs, tax exempt financing, and direct loan subsidies or rental assistance--to name a popular list of the approaches that have been used and have proven themselves. Federal, state, and local governments must share the responsibility for providing suitable multifamily rental housing. The governmental role, however, should be further enhanced by the activities of private non-profit sponsors, as well as other private for-profit entities who can participate in the process of financing, owning, and managing rental multifamily housing. Thus, MBA concludes that multifamily rental housing requires diverse approaches by a variety of participants, governmental as well as private.

The roles of each level of government and the private sector should be defined. The delivery of housing assistance is a shared responsibility. The Federal government has a number of programs that are currently working well. Many states have viable and active assistance programs. A number of non-profit groups have developed the expertise and the funding sources to provide assistance. Private, profit-motivated companies have the experience and capacity to produce, finance, and manage rental housing. These efforts should be coordinated at the state and local levels to assure that housing needs are addressed in the most efficient and effective manner possible.

There are functions best suited to each level of government and to a wide variety of private sector entities engaged in providing housing assistance. We believe that state and local governments, assisted by private non-profit and for-profit entities, are best able to define their housing needs and should have the responsibility for determining which programs best meet those needs. In an era of limited resources, someone must be responsible for determining how those resources will be distributed and we suggest that those choices should be made at the local, and sometimes state, level.

However, financial resources are best and most equitably marshalled at the Federal level. A certain number of assistance programs should be designed and made available at the national level, but the identification of needs and the matching of available programs to those needs should be coordinated at the state and local levels.

MBA would like to stress that currently there is a strong existing multifamily delivery system that is capable of producing housing for certain income levels. With program adjustments and funding assistance, inactive programs can be reinvigorated. Improving existing concepts and programs is a viable approach for three reasons. First, many of the current programs are basically sound and can be made more efficient and workable with only minor changes. Second, it is easier to develop a consensus on the value of and support for known programs than newly created programs. Third, any new program would require a lengthy startup phase while guidelines are written, program participants learn to use the program, and investors become comfortable enough to invest in such a program.

In designing multifamily rental housing programs, a first step is to understand who needs assistance. The 'needy' are not a monolithic, homogeneous group. Housing and often other social support services should be tailored to specific needs. The homeless and the very low-income need much more assistance than just what adequate housing would provide, while the 'working poor' who have a generally adequate income, but who are living in areas where the cost of housing forces them to pay more than 30 percent of their income for rent or where adequate housing simply does not exist, have other needs that must be addressed.

Any comprehensive housing assistance initiative needs to address these various groups and their divergent needs.

Having made these general observations, MBA would like to make some further specific comments and recommendations.

Block Grant Mechanisms

MBA is pleased to see that the Report, in recommending a 'Housing Opportunities Program', has adopted a block grant approach for multifamily rental housing. By adding in the concept of leveraging matching funds, Federal monies can be made to go even farther. However, MBA is deeply concerned that this leveraging approach has the potential for rewarding the most sophisticated localities at the expense of needier, less sophisticated localities. Congress should carefully consider the needs basis for determining block grants. However, the block grant approach will allow states and localities to use the funds more flexibly, either under a menu of established Federal programs or in programs of their own design. They would decide, set forth a 'plan', and receive funding upon plan approval.

Multifamily Housing Delivery System

As a general principle, where local housing market conditions allow, housing policy should look first toward the use and preservation of the existing stock of housing and surrounding community facilities, before new construction is undertaken. However, demand-side programs, by themselves, will not address all of the Nation's housing needs.

The very poor are best served through low-rent public housing. Because the supply of public housing is currently inadequate to meet the need, national housing policy should have a component for the construction or acquisition of new public housing units to serve this group, as well as the repair and modernization of existing housing projects.

All current programs for housing senior citizens, including the Section 202 program, should be continued. Consideration should be given to replacing direct loans under Section 202 with an interest subsidy program.

A national scale and a more universally workable housing assistance program for low- to moderate-income families and individuals is needed. The suggested program would have the following characteristics:

- New construction or rehabilitation of projects in which 20 to 25 percent of the units would be set aside for low-income occupancy;
- The projects could be financed through FHA-insured or conventional mortgages which, in turn, could be financed with tax-exempt bonds or a direct interest subsidy program;
- Rental assistance payments, through the 'Rental Supplement' or the 'Section 8' programs, would be available for the low-income units so that tenants would have to pay no more than 30 percent of their income for rent;
- The rent subsidies would be contracted for a 20-year term with the government having the option to renew the subsidy contracts at the end of 20 years if the units are still needed to house low-income households.

Multifamily Maximum Mortgage Amounts

MBA supports adoption of a formula for calculating the FHA multifamily maximum mortgage amounts, which would allow these programs to keep pace with rising costs, to reflect appropriately high-cost areas, and to allow for individual project differences. We would like to note that the concept of project-by-project analyses whereby the HUD Secretary can determine on an individual basis that further increases are appropriate should be retained even if the multifamily maximum amounts are adjusted to reflect areawide costs. Individual features or programs offered by a multifamily project that are tailored to address specific community needs can add to a project's operating costs, and a mechanism to accommodate financing of these costs on a individual basis should be retained.

Indexing of the base maximum mortgage amounts would also allow these programs to operate more effectively and keep pace with rising costs.

Budget Treatment

There is inherent unfairness in the way multifamily housing assistance programs are treated in the Federal budget process. One major reason why housing programs are viewed as so expensive is the current practice of counting the life cycle cost to the government of the housing assistance. Congress should redefine its budgeting approach at least to consider alternative calculations for housing costs such as a discounted present value calculation of the rental assistance payments.

Taxation

Future Federal tax policy, both from the legislative and regulatory perspectives, must be an integral part of the establishment of a national housing policy. Tax policy should be revisited with a view toward assuring that adequate incentives exist for investment in rental housing, particularly for lower-income families and individuals. With respect to tax treatment of rental housing, particularly for lower income families and individuals and congregate living, Congress should review the following:

- All passive losses from real estate activities should be allowed to offset other income without limitation. At a minimum, passive losses from persons who materially participate in real estate activities and persons who invest in low-and moderate-income housing should offset other income without limitation.
- In all instances of real estate activities, all cash-out-of-pocket ownership and operating expenses should be currently deductible against any income.
- MBA supports the use of tax credits as one mechanism to encourage the continued development of low- and moderate-income housing. Further, MBA supports the extension of current law providing for the use of tax credits for these purposes through 1990 to enable current projects utilizing the credit to proceed to construction and to provide a reasonable period of time to rectify, where possible, any technical problems now found in the administration of the credit.

- Construction period interest and taxes should be amortized over 10 years;
- Favorable capital gains treatment should be reinstituted for sale of real estate; and
- Limits on the volume of the tax-exempt bonds that may be issued for the financing of low-income rental housing should be removed.

SUMMARY

MBA commends the National Housing Task Force and this Subcommittee for facing up to the magnitude of housing problems and recognizing the reality that it will be expensive to provide decent and affordable housing for all Americans. Clearly, the Report challenges all of us to set our collective will to the task of doing whatever it takes to address the Nation's housing dilemma. The problems will not go away and must be addressed as a national priority.

It is important to understand that housing is an issue for all Americans. For many middle income and young families, homeownership is a fading dream as a result of high interest rates, rising home prices, and substantial downpayment requirements. Rental costs have also skyrocketed, forcing many families to choose between paying rent and buying other essentials.

The mortgage lending community wants to commit its energy, skill, and resourcefulness to providing adequate housing for all citizens. In a working partnership with Federal, state, and local governments, lenders will join with others, both for-profit and nonprofit-entities, to help address housing needs for all Americans.

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MBA appreciates the opportunity to testify today and looks forward to the opportunity to participate in the continuing dialogue and effort to forge viable housing opportunities for a spectrum of America's citizens.

STATEMENT OF

THE NATIONAL ASSOCIATION OF HOME BUILDERS

before the

JOINT SENATE-HOUSE SUBCOMMITTEES ON HOUSING

on

REVIEW OF THE REPORT OF THE NATIONAL HOUSING TASK FORCE

April 12, 1988

INTRODUCTION

Mr. Chairman, Members of the Senate and House Housing Subcommittees, my name is Dale Stuard. I am from Newport Beach and currently serve as President of the National Association of Home Builders (NAHB).

On behalf of the more than 150,000 members of NAHB, I am pleased to appear before this joint Senate and House housing subcommittee hearing which focuses on the Report of the National Housing Task Force prepared under the direction of the very capable and dedicated leadership of James W. Rouse and David O. Maxwell.

Mr. Chairman, as we look to housing policy to guide this great nation during the decade of the 1990's, the challenge before us is to follow through on the accomplishments of the past. While we are firmly committed to reduction of the federal budget deficit we believe that the priority of housing should be elevated. We firmly believe that the federal government must provide a significant share of funding aimed at the following objectives if we are to meet the various housing needs facing us in the decade ahead:

- Maintain and increase homeownership opportunities for both moderate- income and lower-income households;
- Reduce the costs of housing by eliminating restraints imposed by regulation, excessive growth restrictions and a general failure in recent decades to provide adequate infrastructure to support continued development of affordable housing;
- Increase the supply of affordable rental housing for low- and moderate-income families;
- Preserve and enhance the existing stock of federally assisted rental housing, while honoring previous commitments to private owners of this housing; and
- Create rental programs targeted to the special needs of the elderly, the handicapped, those in rural areas and the ever increasing number of homeless and near homeless.

There are no better words to describe the importance of housing than those of Abraham Lincoln: the strength of a nation lies in the homes of its people. Homes — and the sense of community they create — are critically important to the stability of our nation. Homes shelter. Homes nurture. Homes are the cornerstone of our democratic system and our unique way of life. Without homes, families cease to exist. And without families, our nation as we know it will cease to be.

Homes are also the foundation of a strong economy. Each year they provide thousands of jobs in construction and related industries and billions of dollars in state and local taxes. In 1987, construction of new housing alone comprised about five percent of the gross national product. Homes are also a source of financial security — in essence, a live-in savings account —for millions of families, many of whom have no other investments. More than $3 trillion in equity can be tapped by home owners to provide a backstop to Social Security, a secure retirement or college educations for their children.

America's Housing Affordability Crisis

Despite housing's importance, we are facing a grave housing affordability crisis. Following years of unparalleled success in improving the quality and affordability of housing and turning a nation of tenants into a nation of home owners, the United States is now losing ground in its effort to ensure a "decent home in a suitable living environment for every American family."

The dimensions of the current housing situation are well documented in reports released last month by the Joint Center for Housing Studies of Harvard University and the National Housing Task Force. These reports paint a picture of a country divided, "increasingly becoming a nation of haves and have-nots" according to the Joint Center Study. On one side, most Americans live in the best housing on earth; on the other side, a smaller but growing number of Americans are unable to secure decent, affordable housing.

Today's housing problems touch a wide range of Americans, ranging from a young couple unable to qualify for a starter home, to a low-income family living in substandard housing or paying a disproportionate share of its income for rent, to a lower-income family with all but the wage earner on the streets by day, all sleeping in a rented garage with no facilities by night, to a homeless mother with two young children who spend the night in the back of a pickup truck.

The alarming facts on the current housing situation, as documented in the recent study conducted by the Joint Center for Housing Studies, are as follows:
(SEE TABLES I to IV).

- The homeownership rate in the United States has fallen from a peak of 65.6 percent in 1980 to 64 percent in 1987. Had the 1980 rate been maintained, 2 million additional households would own their homes today.

- The decline in homeownership has been most pronounced among young households. The homeownership rate for households in the 25-29 age group fell from 43.3 percent in 1980 to 35.9 percent in 1987. For households in the 30-34 age group, the rate declined from 61.1 percent to 53.2 percent; and for 35-39 year olds, the rate fell from 70.8 percent to 63.8 percent.

- Although out-of-pocket homeownership costs peaked in 1982 when mortgage rates were at record highs, the after-tax cost of homeownership today still remains well above the levels of the late 1960s and early 1970s. Nationwide, the annual after-tax cost of owning a typical starter home was $7,449 in 1987, 32.4 percent of the average annual income of potential first-time buyers aged 25-29. This was about 50 percent higher than the share of income required in the late 1960s and early 1970s to purchase a comparable home.

- While the quality of America's housing stock has improved dramatically over the past 40 years, 4.5 million owners and 5 million renters still live in substandard housing. Inadequate housing is more prevalent in inner cities and outlying rural areas, places with high concentrations of low-income households. One in four young single-parent renter households with children lives in inadequate housing.

- Many markets in America confront a critical shortage of low-cost rental housing, despite rising rental vacancy rates in recent years. While the number of vacant rental units rose from 1.54 million 1981 to 2.66 million in 1986, 90 percent of the increase in vacancies consisted of units renting for more than $300 a month, well beyond the means of most low-income households. Meanwhile, the total number of units renting for less than $300 a month has fallen sharply.

- An estimated 16 million renter households pay more than 30 percent of their income for rent. Since 1981, gross rents for a representative rental unit have increased 14 percent faster than prices generally, reaching a median level of $364 in 1987. Inflation-adjusted rents today are at their highest level in two decades.

- The rising rent burden has been particularly onerous for single-parent families, which have seen their rents increase from 34.9 percent of their incomes in 1974 to 58.4 percent in 1987.

- Only 28 percent of renter households with incomes at or below the poverty line live in federally assisted housing units. This suggests that 5.4 million households are left to compete for the dwindling supply of low-cost rental housing available in the private market.

- The shortage of low-cost housing and the rising rent burden, particularly among young, single-parent families, have contributed to the rising incidence of homelessness in the United States.

- The problems of declining homeownership opportunities, shortages of low-cost rental housing, increasing rent burdens and a growing homeless population are all interrelated. Priced out of the ownership market, moderate-income households, that years ago would have been able to purchase a starter home, now are competing with lower-income households for a declining supply of low-cost rental housing. Those at the lowest end of the income scale are seeing their housing options evaporate and, in many cases, are only one financial setback away from being added to the homeless population.

Cutbacks in federal support of housing actually have contributed to the housing problems we see today:

- Total budget authority for the Department of Housing and Urban Development has been reduced from $37.99 billion in 1978 to $15.41 billion in 1988 while the overall federal budget has more than doubled over this timeframe.

- Housing's share of the federal budget has diminished, with HUD budget authority representing 7.4 percent in 1978 but only 1.3 percent in 1988.

- Numerous housing production and related programs have been greatly reduced or eliminated entirely, including the Section 8 programs for new construction and substantial rehabilitation. In addition general revenue sharing, which often provided federal funding for infrastructure activities, has been eliminated.

The Report of the National Housing Task Force has made a series of excellent recommendations for housing policy in the 1990's. The balance of our statement focuses upon these recommendations.

I. A New System for Delivering Affordable Housing

Some analysts and policy makers have taken the position that the problem of affordability for low-income renters is simply a problem of inadequate income rather than a problem of inadequate supply of decent, affordable rental housing. While that may be true in some localities, there are shortages of low-cost housing in many areas. The evidence of those shortages is documented in several recent studies, but it is most graphically demonstrated by the widespread and growing incidence of homelessness.

To address adequately the problems of housing affordability for low- and moderate- income households, an increased level of new production of low-cost housing must occur. Demand side subsidies alone cannot address these shortages and, in the absence of new production, such subsidies simply put pressure on already high rental costs. The federal government must provide a significant share of the dollars, and create the framework within which new production of rental housing for low-income households can occur.

One of the key themes of the Task Force report is the need for additional affordable housing supply. Another major theme is that future public efforts should include greater state and local government involvement. In recent years, a number of states and localities have shown leadership in the development of new approaches and in the recognition of regulatory barriers to the production of affordable housing. Perhaps most importantly, states and localities are recognizing that they ought to be providing some of the necessary financial support, rather than expecting that all the money should come from Washington. The Task Force recommends creation of a Housing

Opportunity Program (HOP) that would address the supply problem and include incentives for further state and local innovation and commitment, and we applaud that.

Legislation and regulations to effect a HOP or other program of federal assistance in support of state and local efforts must strike a balance between flexibility and responsibility. While greater flexibility for local authorities is critical to efficient use of the limited resources available, it is also important that localities be required to pursue the objectives of the legislation. Use of HOP funds for unrelated, high-profile projects such as sports arenas must be proscribed, and it must be required that the funds be used in a cost-effective way to provide additional housing, rather than as vehicles for political patronage or as a basis for balancing local budgets. Local regulatory barriers that increase the cost of housing should not be permitted to dilute the effort to provide low-cost housing. The Task Force properly recognizes the need to exert Federal regulation to that extent.

The designation of local governments as both distributors of HOP funds and as potential recipients creates an inherent conflict of interest. The Task Force recognized this and recommends a cap on the share of HOP funds that could go to public housing authorities.

The HOP recommended by the Task Force would provide grants totalling $3 billion annually to states and localities using two different allocation procedures. We are concerned that these formula grant entitlement programs will be spread too thinly. Unless major additional funding is found, small and moderate-sized localities will not receive the funds needed to move ahead with significant projects. It may be preferable to allocate the funds by a competitive process to public and private developers with state/local contributions taken into account in awarding grants, a procedure that the Task Force recommends only for the distribution of funds that remain when states fail to participate.

In the same section of their report, the Task Force notes the need for adequate housing data. In addition to the need for data from the decennial Census and the Annual Housing Survey, cited by the Task Force, there is a need for additional accurate, timely data on house prices, rents, vacancies and other variables that affect the administration of current housing programs. For example, the determination of maximum FHA mortgage amounts and "fair market rents", utilized in the allocation of funds under any program, are heavily dependent on current and reliable data. The value of and cost-effectiveness of this data collection should not be underestimated.

II. New Sources of Capital and a New Institution for Low-Income Housing

The National Housing Task Force has made several recommendations designed to attract capital to housing. These recommendations are as follows:

- o The Federal government should provide standby support to benevolent lending.
- o The Federal government should promote community development banks.
- o The Federal government should create a national corporation to support the new housing delivery system.

Proposals such as benevolent loan funds and community development banks may be worth considering, and may have some potential merit. NAHB would like to study these proposals further. We believe, however, that most new production will have to come from a partnership between government and private entrepreneurs.

III. The Nation's Existing Low-Income Housing Stock

The already-inadequate supply of affordable rental housing for low-income households is threatened with further depletion as a result of the expiration of Federal commitments to preserve privately-owned units for low-income use. Federal project-based rental subsidy contracts under the "loan management set-aside" program should be renewed to avoid displacement of tenants and/or mortgage default by the owners. Long-term rehabilitation needs must also be addressed to prevent additional loss and abandonment of this vital government-assisted asset. In the case of low-rate mortgages with prepayment options under the Section 221(d)(3) BMIR and 236 programs and the Farmers Home Section 515 program, the government should provide incentives to property owners to extend their commitments rather than prepay their loans and withdraw from the programs.

An alternative approach to the prepayment risk issue, exemplified by the current moratorium on prepayment, is simply to deny or restrict prepayment rights. Not only does such an approach raise legal and moral questions, it has a severe chilling effect on any future participation by private investors in Federally-assisted programs to provide low-income housing. NAHB continues to work with other groups on this issue. We are reviewing the HUD Management Agent's Report and we look forward to the release of the Reuss-Hills report -- both of which specifically address this important issue.

IV. Public Housing

NAHB supports funding for modernization of the public housing stock. The recommendations of the Task Force to improve the physical condition and management of public housing seem appropriate.

The recommendation of the Task Force with regard to limited sales of public housing units to tenants is also consistent with NAHB policy. We believe that any sales should be closely monitored and that there should be proper safeguards to ensure that such units remain affordable to low income households.

V. Tax Policy and Low-Income Housing

The National Housing Task Force Report contains several excellent recommendations regarding tax incentives for production of housing. Sound tax policy is a necessary complement to this national's overall housing policy.

Since 1981, the tax incentives that were designed to encourage the production of decent, affordable rental housing have been cut back sharply or eliminated. Prior to enactment of the Tax Reform Act of 1986, investment in low-income housing was uniquely favored. Depreciation was allowed over a 15-year period on an accelerated basis. Expensing was allowed for construction period interest and taxes. Low-income housing rehabilitation expenses could be amortized over a short period. An income tax exclusion was provided for capital gains. There was no limitation on so-called passive activity losses.

The Tax Reform Act of 1986 substantially reduced the attraction of investment in low-income housing by among other things:

- Substantially restricting the deduction of losses from "passive" activities;
- Limiting deductions for investment interest;
- Repealing rapid amortization of low-income housing rehabilitation expenses;
- Substantially lengthening allowable depreciation lives (27-1/2 years/straight-line for residential rental property));
- Substantially restricting the issuance of multifamily industrial development bonds; and
- Substantially strengthening the minimum tax provisions.

NAHB believes that the tax credit for low-income rental housing was one of the few highlights to come out of the Tax Reform Act of 1986. This provision indicates, at least, that Congress recognized the Tax Code as a tool for providing low-income housing. Although the final product was far from perfect, the enactment of the credit indicated Congress' belief that a tax incentive must be provided to encourage construction, rehabilitation and maintenance of low-income housing. The technical corrections legislation introduced last year and reintroduced this year in both Houses offers steps to making the tax credit more workable, but more must be done.

As previously pointed out, prior to the Tax Reform Act of 1986, there were several incentives for investment in rental housing. Most of these incentives were provided by the Economic Recovery Tax Act of 1981. The 1981 Tax Act stimulated the highest level of production of rental units in a decade. This increased the availability of rental units throughout the nation. As a result of the sharp curtailment of tax incentives for investment in rental housing by the Tax Reform Act of 1986, production of rental housing has suffered. For example, 1987 saw a drop of nearly one-half in rental unit construction as compared to 1985 and 1986. Recent permit statistics indicate that this drop in construction of rental units will continue into the future.

The Task Force report has made several excellent suggestions regarding improvements to the low-income housing tax credit. These include the following:

- Elimination of the 1989 sunset date.
- Removal of penalties on the use of the credit with tax-exempt and other federal assistance.
- Full exemption from the passive loss rules and the alternative minimum tax for low-income tax credit projects, and
- Carry over and reallocation of credit authority among the states.

NAHB believes that all of these ideas merit serious attention.

Of primary importance, however, is the interaction of the passive activity loss restrictions with the low-income housing tax credit. Ideally, investments in qualifying low-income housing should be exempt from the passive activity loss restrictions. However, there are several improvements that can be made short of an outright exemption from the passive loss limits. For example, the passive loss limits could be lifted for purposes of the regular tax but a portion (e.g., 50 percent) be included in the minimum tax base. Furthermore, the individual adjusted gross income limit for maximum use of the credit could be lifted. Allowing the maximum credit to be utilized only by individuals whose adjusted gross income is $200,000 or less restricts the flow of money into low-income housing. It also complicates the structure of low-income housing development, because relatively large numbers of individual investors must be found in order to attract sufficient dollars to the investment, and high syndication fees may be required to put a sufficient number of investors together.

So long as there are means of assuring that high income individuals cannot "zero out" their tax liability through investments in low-income housing, there does not seem to be any point in limiting the maximum utilization of the credit to individuals below a specified income level. Furthermore, the credit already is limited by a state volume cap. However, if Congress deems it proper to retain an income limit, then the limit should be relevant only in the year of the initial investment, rather than having to be met over the life of the investment. This would remove a major impediment, since it would assure an individual, absent other problems such as failure to continue to meet the set-aside requirements, that he or she would be entitled to annual credits throughout the life of the project.

We endorse, fully, the proposal that bonds financing multifamily housing should be redefined as public purpose bonds under the Internal Revenue Code. This would exempt the interest on the bonds from the alternative minimum tax, thereby, reducing interest rates. This would also remove such bonds from the unified state volume cap.

In addition, we strongly support the Task Force proposal to reduce depreciable lives to 20 years for qualified low-income housing, and suggest further that reduced depreciable lives be considered for all residential rental property. Finally, we suggest reinstatement of the long-term capital gains tax exclusion in order to promote further investment in housing.

VI. The Gap Between Housing Costs and Income

NAHB supports the use of rental assistance payments to solve the problem of affordability for low-income renters in markets with adequate supplies of decent rental housing. The use of project-based rental assistance as an instrument for expanding and preserving the supply is also appropriate is some cases.

VII. Homeownership

The National Housing Task Force has made several excellent recommendations concerning the issue of homeownership. These can be summarized as follows:

- The federal government should increase access to FHA mortgage insurance and modernize the VA program.

- The federal government should take steps to ease downpayment difficulties for first-time homebuyers by allowing the use of IRA and other self-funded benefit plan monies.

- The federal government should continue mortgage revenue bond programs for low- and moderate-income homebuyers.

- State and local governments should use HOP to assist low-income homebuyers and homeowners.

- Congress and HUD should explore the potential of employer-sponsored and employer-assisted housing.

- States and localities should actively explore means of reducing regulatory constraints on the production of affordable housing.

NAHB strongly endorses most of the above-stated proposals. However, as we stated above, we do have some doubts about certain aspects of the Housing Opportunity Program.

In addition, while we concur with the idea that Congress and HUD should explore the potential of employer-sponsored and employer-assisted housing, there probably are less complicated and less costly ways of providing housing.

In addition to the proposals listed above, we believe that the Congress should strongly affirm its commitment to retaining the tax deduction for mortgage interest and real property taxes. These deductions have helped us to become the best housed nation in the world. Both in 1986 and 1987, the Congress placed new restrictions on the deductibility of mortgage interest. The time has come to stop tampering with this deduction.

The Task Force proposals on homeownership are important for several reasons, not the least of which is the recent decline in homeownership. The decline in the homeownership rate reflects many factors. The most influential single factor has been high "real" interest rates. In previous periods when inflation has been below 4%, home mortgage rates for fixed rate loans have been below 8%. Even though nominal interest rates have declined over the past seven years, real interest rates are still quite high by historical standards. Further interest rate reductions will depend to a large extent on serious, long-term efforts to cut the Federal deficit, and that must remain a top priority.

High monthly mortgage payments, due to high interest rates and high home prices, have been a strong deterrent to homeownership for young families. Increased downpayment requirements have also become a serious obstacle. Increased up-front costs, increased home prices, restrictions on the FHA and VA programs, and changes in mortgage underwriting standards have all contributed to the downpayment problem. The FHA mortgage insurance and VA loan guarantee programs historically have played a key role in making homeownership affordable to many American families. These programs lower both interest costs and the amount of cash that buyers must produce at the time of home purchase. These vital programs have not only served critical needs directly, but in the past have been a source of innovations that later were adopted in the conventional mortgage market.

In recent years, however, there have been a series of proposals aimed at restricting the FHA and VA programs. While Congress has rejected most of those proposals, we feel it is important to reiterate several important points.

- The primary FHA insurance program is a self-supporting mutual insurance arrangement in which premiums paid by relatively low-risk borrowers help provide the funds to insure against defaults by higher-risk borrowers. Proposals to further restrict eligibility, such as setting income restrictions, would endanger the actuarial soundness of the insurance program. Furthermore, the credit ceilings of FHA and the GNMA mortgage-backed securities program should not be reduced in the event of across-the-board cuts in the budget to meet Gramm-Rudman-Hollings deficit targets. Cuts in these program activity levels do not contribute to deficit reduction, and they should be exempted from the sequestrable categories.

- The VA program is an entitlement provided in recognition of national service. It was never intended to be self-supporting, but it has been a cost-effective way of providing a reward to those who have served the nation and it has eased the transition of veterans into civilian society.

- The development of alternative mortgage instruments, particularly adjustable rate mortgage (ARM) loans, has played an important role in keeping housing credit available and affordable during periods of high and volatile interest rates. Restrictions on the terms and availability of adjustable-rate FHA-insured mortgages, and the absence of adjustable-rate VA-guaranteed loans, have detracted from the value of those programs. These restrictions are in stark contrast with the history of FHA and VA, which have traditionally been leaders in innovative techniques.

Despite the recent increase in the maximum mortgage amount for FHA loans in high-cost areas, the FHA loan limits are not nearly high enough to finance purchase of a median-price home in many areas. This is true particularly in my home state of California. We agree with the Task Force that instead of imposing a nationwide cap on FHA insured loans, the maximum loan size in each area should be based simply on the median price in that area. This would provide more equitable access to FHA financing for our citizens.

The FHA insurance and VA guarantee programs represent only one element of Federal support for the housing finance system. The Farmers Home Administration provides low-rate financing for low-and moderate-income housing in areas that are not adequately served by private lenders; this program has successfully contributed to the realization of the American Dream and ought to be preserved. In addition, Federally related enterprises which operate in the secondary mortgage market, along with a system of federally insured thrift institutions committed to housing finance, have ensured the availability of mortgage finance for home buyers at reasonable rates.

Tax-exempt state and local mortgage revenue bonds (MRBs) have provided low-cost funds for home mortgage loans for moderate-income first-time home buyers who would otherwise have found it difficult or impossible to buy homes. Tax-exempt bond authority for MRBs should be extended before the December 31, 1988 sunset date. Consideration also should be given to setting separate MRB volume limits based on housing demand, rather than placing MRBs under a cap based on state population.

To address the down payment problem, it is necessary to reduce not only the up-front cost of buying a home but also to facilitate the accumulation of the necessary amount of funds by prospective home buyers. Several low-cost measures could help to achieve those objectives, including:

- Home purchasers should be permitted to invest funds from their Individual Retirement Accounts (IRAs), Keogh, and 401(K) retirement plans in their homes as down payments. These investments should not be considered "withdrawals" from those funds, but simply alternatives to investment in CD's, mutual funds, or other vehicles now classified as eligible investments. Additionally, Congress should initiate tax exempt Individual Housing Accounts (IHAs), to provide a specific incentive for young families to save early for downpayments and closing costs.
- Since 1974, the minimum down payment for FHA loans on homes valued in excess of $50,000 has been 3% on the first $25,000 and 5% on additional amounts. Median new home prices are now approximately three times as high as in 1974. In light of the higher levels of home prices today, the Task Force is correct in recommending that the portion eligible for the 3% downpayment should be raised to at least $50,000.

Low-Income Homeownership

Homeownership is desirable and appropriate for many households that fall into the low-income (below 80% of median) category. For ownership to be feasible for such households however, assistance may be required beyond that provided by current housing finance programs (including tax-exempt financing) and the proposed tax-free savings plans. The successful Farmers Home Administration Section 502 program has demonstrated the feasibility of deeper low-income homeownership assistance in rural areas, and a similar program for urban areas should be considered.

In another effort to increase low-income homeownership, NAHB is working today to develop a nationwide demonstration of the newly authorized Nehemiah Program. We urge Congress to appropriate the authorized funds. Once these funds are appropriated, we envision the construction or rehabilitation of up to 2,500 single family homes for low-income, first-time homebuyer households.

Our Nehemiah model identifies the components that are needed to create an effective and energetic housing production partnership. Building upon the foundation laid by Congress of targeting federal funding to leverage state and local initiatives, we would construct a mechanism to harness the private sector expertise and energy which will be needed if a meaningful number of low-income, first time homebuyers are to be assisted.

In the Chicago area today, a group of our members is working with a non-profit entity on Chicago's west side to construct 50 homes on land donated by the city. The construction employs local residents, and the homes will be affordable to young families in a neighborhood redevelopment area.

Across the country, individual homebuilders, and often our local homebuilder associations, are involved in similar efforts. We are confident this kind of a partnership can work, and we urge Congress to move quickly to fund the Nehemiah Program. Also in Buffalo, New York one of our members has produced over 200 units of Nehemiah type housing.

Infrastructure — Regulations and Growth Constraints

Part of the affordability problem is due to high home prices. The fact that these high prices are often the result of restrictive land use regulations, high impact fees, permit processing delays, or archaic development standards has been extensively documented through demonstrations such as the Federally sponsored Joint Venture for Affordable Housing. Several state governments have taken the lead in recognizing the connection between local regulations and affordable housing. They have required localities to reform regulations and take steps to accommodate more affordable housing.

In many areas, production of additional housing is constrained by inadequate infrastructure. Neglect of the need for roads, schools, parks, water supplies, sewage capacity, and other public facilities has caused communities to restrict growth.

Because of restrictions on taxing authority, or constraints on the issuance of municipal debt, many communities have turned to the use of impact fees to finance off-site infrastructure. Some communities use impact fees simply as a new source of income. Such fees are typically levied on a per-house or a per-square-foot basis, rather than on an ability-to-pay basis, and often place an unfair burden on the new homebuyer. They also place a disproportionate burden on lower-income households. Moreover, because they are reflected in home prices, they place an additional hurdle in the path to homeownership. As an example, Mr. Chairman, the current market conditions in some areas of the country, including your state and mine, California, are such that they prohibit the building of affordable housing for those of moderate incomes. As an example, various impact fees exceed $20,000 in some areas in California — an amount greater than the average priced home not so many years ago. Added to these fees are a lack of infrastructure to adequately support new development, slow and no growth restrictions and regulations which duplicate or which are unnecessary and the result is that no new production is attainable in those areas at prices affordable by a vast majority of the population. (SEE APPENDIX I).

Local government restrictions are not the only ones that have contributed to this problem. Some of the restrictions and costs emanate from the Federal government. For example, application of Davis-Bacon requirements to residential construction has the perverse effect of making it more expensive (per square foot) to build federally-assisted housing for low-income families than to build unassisted rental housing for higher-income families. Certainly, the Federal government should be part of the solution and not part of the problem.

While the elimination of regulatory barriers to affordable housing is largely a responsibility of state and local governments, there are a number of Federal actions that ought to be taken. These include:

- The Joint Venture for Affordable Housing ought to be extended, with greater efforts to educate local officials.
- Restrictions on the use of tax-exempt bonds to finance infrastructure should be removed.
- A national infrastructure bank should be created to provide long-term, low-cost financing for capital investment in new facilities.

- Additional grants for water and sewer requirements should be provided.
- The impact on housing affordability should be considered in the formulation of regulations by Federal agencies such as the Environmental Protection Agency (EPA) and the Occupational Safety and Health Administration (OSHA).
- Federally-funded new construction and rehabilitation of residential properties should be exempt from costly Davis-Bacon requirements.
- The Federal government should provide incentives and penalties in the allocation of funds to discourage practices that exclude or hamper the construction of affordable housing.

VIII. The Housing Finance System

We concur whole-heartedly with the Task Force's recommendation that Congress continue to support the government-sponsored entities that have allowed the housing finance system to maintain the availability of mortgage loans despite the severe dislocations and strains that have battered many financial institutions. The Task Force recommendation is cast in defensive terms, reflecting the proposals for restrictions and fees that have been directed at FHA, VA, Ginnie Mae, Fannie Mae, Freddie Mac, and the Farmers Home Administration. Over the next few years, the focus hopefully will shift away from defensive efforts against proposals to dismantle or severely restrict these vital institutions toward developing new roles for the government-sponsored housing finance entities in addressing the needs identified by the Task Force.

In return for Federal support and guarantees, thrift institutions, Fannie Mae and Freddie Mac face special responsibilities to provide housing finance. Congress should establish a stronger "thrift asset test", specifying appropriate levels and types of mortgage investments and substantial penalties for noncompliance. Fannie Mae and Freddie Mac should consider their public policy responsibilities in setting underwriting standards and should continue to take the lead in financing low-income housing.

IX. Fair Housing

The Task Force report calls for a renewal of the federal commitment to enforcing fair housing laws by increasing enforcement, prohibiting discrimination against families with children and using HOP funds and rental assistance to counter housing discrimination at the state and local level.

Mr. Chairman, NAHB firmly supports the enforcement of fair housing laws. NAHB and NAHB's Research Foundation have been and continue to be at the forefront in the area of providing barrier free housing for the handicapped. We are currently educating our membership and the public as to the aesthetic possibilities available in new housing adaptable for the handicapped while working with various handicapped organizations. As one example, our Portland, Oregon Home Builders Association presently is constructing a barrier-free home as a model for their parade of homes show later this summer.

While NAHB has no policy with respect to expanding fair housing enforcement to prohibit discrimination against families with children, we have been involved with the House Judiciary Committee on legislation which they have before them including such a provision. We continue to believe that we can agree on language acceptable to the Committee as well as to our membership who develop, build and manage multifamily housing. For example, we believe that housing for elderly and the near elderly should be exempt from such a prohibition and the Committee language contains these provisions. We support increasing enforcement through the adoption of the Fair Housing Initiatives Program in the 1987 Housing Act but are not in a position to recommend its extension at this time. We do not have a position on leveraging federal funds to counter discrimination.

X. Housing In Rural America

The National Housing Task Force recommends that federal rural housing programs currently in place should be used to the greatest extent practicable in improving housing in rural areas. Their recommendations call for improving substandard housing and expanding homeownership opportunities under Section 502 through a deferred mortgage program. The National Housing Task Force also supports the development of rural nonprofit organizations to serve rural housing needs and asks for greater emphasis to meet the housing requirements of migrant workers and native Americans.

We support continuation of the direct loan programs of the Farmers Home Administration (FmHA) to provide housing for low and very low income families and the elderly in rural areas. The FmHA has an excellent delivery system with over 2,000 offices located across the country to help make housing loans to needy rural people whose incomes are generally below 80% of area median income.

It is important that rural homeownership be increased and substandard housing be rehabilitated or replaced in rural areas. NAHB has concerns, however, with the Task Force recommendation which includes a deferred loan program under Section 502. A deferred loan program could add greatly to the cost of the Section 502 program at a time when budget constraints are of high priority. Fewer people would be assisted because high subsidy costs and negative amortization would likely occur.

Almost 90 percent of the housing built under the FmHA is constructed by for profit developers. We feel that a level playing field for profit and non profit developers and builders needs to be adopted when making decisions on the best way to deliver low cost housing to rural America. Any legislative priority given to nonprofit organizations should not be taken without full consideration and examination of the economic viability and operation of current nonprofit projects.

NAHB recommends that housing for those who have special needs such as native Americans and migrant workers be constructed where there is a documented need.

CONCLUSION

It has become increasingly clear that the challenges of today and the decade ahead can be met only by reinvigorating our national commitment to housing. We must reduce our budget deficits to pave the way for lower interest rates, continue to advance new ways to finance housing in an ever changing environment, remove inequitable and wasteful development fees, provide tax incentives that reduce the cost of homeownership and encourage the construction of affordable rental housing, invest in our infrastructure and, within budget limitations, devise new support programs to ensure that the low-income and those with special needs — including the homeless — can obtain housing that is both decent and sanitary as well as

Infrastructure

Deterioration of America's infrastructure has major implications for the nation's economic vitality, competitive position in international markets and standard of living. The housing needs of increasing numbers of urban, suburban and rural households cannot be fully met without the expansion, repair and replacement of highways, bridges and sewer and water systems. The Council of State Planning Agencies estimates it will cost $3 trillion to provide for adequate infrastructure in the 1980s. During a period of declining federal assistance for major capital improvement projects, especially waste water treatment facilities, paying for the infrastructure has become a major political issue.

Several factors have prevented state and local governments from taking up the slack left by the federal government in the financing of infrastructure projects. Counties and municipalities have failed to plan adequately for infrastructure financing and development through capital improvement programs or other accepted methods. States have been constrained by statutory and constitutional limits on the public debt as well as increasing competition in the tax-exempt bond market. Local governments, confronted by a growing unwillingness among taxpayers to pay higher taxes to finance extended services to new residents, have imposed excessively stringent standards and regulations that inflate infrastructure costs, overstate infrastructure needs and discourage the use of efficient new building technologies.

National estimates of the need for infrastructure can be misleading because there is neither a universal definition of infrastructure nor a common yardstick for measuring need at different government levels. But the Joint Economic Committee of the U.S. Congress has predicted a shortfall of $400 billion in financing the bridges, highways, sewer and water systems and transportation facilities that will be needed during the balance of the century. Based on case studies in 23 states, the committee concluded that the nation can still meet its responsibilities "by setting priorities, by defining the problem in realistic terms and by utilizing the resources of federal, state and local governments."

Some states have established infrastructure banks that provide localities with loans from a revolving fund to pay for infrastructure development. Planning ahead to provide the services that will result from expected levels of residential development would expedite the development process and reduce construction costs accordingly. When residential infrastructure standards exceed reasonable performance levels, communities should amend development codes to encourage the use of new cost-saving technologies.

A number of communities circumvent public opposition to tax increases by using a variety of public financing mechanisms, including revenue bonds, industrial development bonds, tax increment financing and privatization. Federal legislation introduced by Rep. James J. Howard, chairman of the House Committee on Public Works and Transportation, would establish a National Infrastructure Fund, a 30-year revolving loan program to finance specific state and local capital improvements.

America's looming infrastructure crisis has already created problems for builders in areas where infrastructure expansion has not kept pace with the demand for residential growth. Development plans are often thwarted by a lack of available sewer, water and road capacity. Even where existing capacity meets or exceeds demand, developers are often required to pay up-front for such offsite improvements as schools, parks, libraries, fire stations and segments of interstate highways. Public sector costs transferred to private developers are ultimately passed along to consumers, often in the higher selling price of a new home.

During a period of scarce financial resources for infrastructure, many jurisdictions will have to choose between repairing or rebuilding existing highways and bridges or adding to sewer and water lines for new housing developments. Although the latter alternative is obviously more appealing to builders, it is important to recognize that no single infrastructure policy will meet the needs of the nation's diverse regions and localities. Confronted with hard choices, public decisionmakers might grant localities the latitude to determine their own infrastructure investment priorities, making it clear that any funding mechanism will have cost implications for taxpayers and government.

The Infrastructure Crisis and the Building Industry

Traditionally, governments at every level assume responsibility for planning and developing public works projects. The federal government's role dates back to the early years of the country, when it financed roads and canals. In the modern era, the federal government has supported the development of such major projects as the interstate highway system. The states have funded state roads and water impoundments. Localities have developed urban systems, including arterial and collector roads, sewer and water systems and schools. Until the mid-twentieth century, the cities themselves actually platted urban land and built needed facilities.

Traditionally, the extension of infrastructure was financed from a community's general revenues. Sound residential development was perceived as beneficial to the entire community, stimulating job creation and housing opportunities and generating income and tax revenues of all kinds.

More recently, however, many such benefits have been overlooked and the costs of infrastructure development have been transferred to the private sector, often through impact fees and other devices that in effect require developers and builders to provide specific services and facilities as a prerequisite for project approval. Impact fees are levied against new developments and collected when a building permit is issued. They constitute direct revenues used to supplement regular tax collections and debt issues.

It is difficult to determine the average cost of impact fees nationwide, but the following examples illustrate the wide range of these capital charges:

- A regional sewer system district in Maryland levies sewer hookup charges of $1,360 for a single-family dwelling unit.
- The city of Bono, Arkansas, assesses a sewer connection fee of $500 and a water connection fee of $220 per unit.
- Oxnard, California, imposed a sewer fee of $5,000 and a water fee of $1,065 per unit before a California court struck them down.
- The freeway assessment program of Orange County, California, charges $136,000 to $155,000 for a 100-unit development of single-family homes.
- Bernards Township, New Jersey, has enacted an impact fee ordinance for offsite traffic and drainage improvements, including municipal roads, intersections, railway stations, and bridges, based on a pro rata calculation.

Raising short-term capital for up-front infrastructure charges is costly for developers. Capital can be difficult to raise. Developers must borrow at significantly higher rates in the private capital markets than local governments can in the tax-exempt markets. The time required to obtain funds and government approvals further increases development costs by prolonging the developer's carrying costs for taxes, insurance and debt service.

Up-front infrastructure charges clearly contribute to the escalating sales prices of new homes. For the home buyer, they represent an unfair share of community expenses rather than a bigger or better home. At a time when the cost of a new home stands on the edge of affordability for the average American household, up-front transfers can be just enough to push prices beyond the means of large numbers of prospective home buyers.

Mortgage financing magnifies the real cost of all such up-front charges incorporated in the selling price of a new home. For example, a $2,376 increase in a local school fee increases carrying costs by more than $13,000 over the 30-year amortization of a 12.5 percent, $64,530 mortgage.

The allocation of up-front infrastructure costs between newcomers and existing residents raises the issue of fairness for developers and consumers alike. In the past, developers routinely provided roads and utilities within the subdivision, but today they are also required to finance a wide range of offsite facilities. Public decisionmakers contend that those who generate the demand for new facilities should bear the associated costs. Developers, on the other hand, hold that local government should fund onsite and offsite facilities that benefit the entire community. In a number of instances, disputes over the equity issue have been taken to court, where decisions have varied from one locality to another.

The changing political and fiscal climate of the past decade has undermined traditional methods of providing and financing infrastructure and has jeopardized continued production of affordable housing.

While the infrastructure crisis requires action at all levels of government, local government—the traditional service provider—cannot be expected to provide the range of public services and facilities in support of housing as willingly as it has in the past. Housing demand, however, cannot be met without the necessary infrastructure. New applications of traditional financing methods and the development of innovative funding mechanisms must lead the way to the continued development of public works.

Infrastructure Financing Techniques

For several decades, public decisionmakers have relied on a variety of debt instruments, most notably general obligation bonds, to finance capital expansion. Increased service needs and fiscal constraints, however, now require a creative approach to funding public works projects. A range of financing mechanisms, from the traditional to the innovative, is available for the development of infrastructure.

Public Debt Financing

General Obligation (GO) bonds are a traditional form of long-term debt issued by the government to finance large-scale capital improvements for the public good. GO bonds are pledged against the full taxing power of the issuing jurisdiction—a state, county, municipality or statutory authority. Accordingly, financial analysts have generally considered GO bonds a sound risk for investors.

General obligation debt is also attractive to investors because it is tax-exempt. Holders of government bonds are not required to pay federal income tax on earned interest income; a number of state and local jurisdictions also exempt earnings from taxation.

General obligation debt is regulated primarily by state statutory and constitutional provisions. State regulation of bonded indebtedness generally places two checks on debt issuance—limitations on the dollar volume of bonds floated and voter approval of the debt. Voter approval is required because taxpayers bear the burden of retiring the bond and are liable to additional levies to meet the bond repayment schedule. Taxpayers are often reluctant to endorse bond issues, which requires public officials to find other financing mechanisms.

Revenue Bonds are pledged against the flow of revenue from user fees that are charged for a variety of public services. Like GO bonds, revenue bonds are tax-ex-

Development Fees Add to Affordability Crisis

Short-term costs of rising fees	Cost with $1100 fee	Cost with $3476 fee	Additional cost
Purchase price	$ 68.400	$ 71.700	$ 3.300
Down payment at 10%	6.840	7.170	330
Escrow fee, title policy, recording at 1%	684	717	33
Buyer's loan fee at 1.5%	923	968	45
Total cash to close	$ 8.447	$ 8.855	$ 408
Loan balance	$ 61.560	$ 64.530	$ 2.970
Monthly payment at 12.5%	657	689	32
Year 1 property tax at 1.1%	752	789	37
Insurance at $28 $100 on 80% price	153	161	8
Total costs of rising fees			
Cash to close	$ 8.447	$ 8.855	$ 408
Total 360 payments	236.520	247.933	11.413
Property tax paid in 30 years at 2% escalation	30.523	31.996	1.473
Insurance paid in 30 years at 6% escalation	12.113	12.697	584
Increase in total cost	$287.603	$301.481	$ 13.878

What looks like a modest $2.376 increase in local school district development fees on new houses raises significantly the cost of purchasing a new home. It adds $3 300 to the purchase price; $408 to the amount of cash needed to close on the home; another $77 to the monthly mortgage payment; and an additional $13.470 over the life of the 30-year term of the mortgage. The total cost of the increased fee is $13.878.

empt securities. However, they are not an obligation of the issuing jurisdiction and do not add to the issuer's bonded indebtedness. This provides public officials a means of circumventing state-mandated debt limits and taxpayer resistance to increased debt.

In the current economic and political climate, it is not surprising that revenue bond issues are growing as a share of the dollar volume of all municipal issues. They grew from approximately 29 percent in 1970 to 70 percent in 1980. This dramatic growth has also been enhanced by a proliferation of limited-purpose statutory authorities empowered to float revenue bond debt.

Industrial Development Bonds (IDBs) are another commonly issued form of tax-exempt debt. IDBs are typically floated to support municipally sponsored economic development projects or private corporate ventures undertaken for the public benefit. Convention centers, sports facilities, residential projects and port facilities are frequently financed with IDBs. IDB debt is often considered a direct debt of the issuing jurisdiction, particularly if it is pledged against the taxing power of the jurisdiction (as in GO bonds), rather than against a stream of anticipated revenues (as in revenue bonds).

Recent concern over lost federal tax revenue and corporate abuse of IDBs in major retail expansions has led to restrictions on their use. The Deficit Reduction Act of 1984 placed a $150 per capita or $200 million per state volume cap on industrial development bond issues. Congress made some exemptions, but the cap, which applies to municipally owned sewage and solid waste facilities, energy facilities and water supply and distribution systems, could slow economic development activities.

Financing Arrangements

Unlike the financing mechanisms described above, which are used frequently by local government, the following financing arrangements are growing in importance.

Tax Increment Financing (TIF), also called tax allocation financing, uses the expected gains or incremental property tax revenues generated by new development to fund the public improvements necessitated by that development. TIF assumes that new development increases property values and municipal property tax revenues in the developed area.

Local government authority to implement TIF derives from state enabling legislation. To initiate a TIF program, the appropriate local government agency establishes a base for the proposed development area's current tax base and then freezes the tax at the base line. The administering body finances needed improvements out of its own funds or through tax-exempt bonds. The rising property values and property taxes resulting from new development push revenues above the frozen base line. This surplus revenue is collected by the local agency and used to replenish its funds or to retire the bond. In the case of a bond issue, the tax is reassessed upon repayment of the security to reflect the increased value of new development.

The Special Assessment is imposed on property owners who benefit from a specific public improvement within a limited geographic area called a special assessment district. Special assessment collections are applied to retire bonds that finance construction or repair of streets; construction of sewer mains, laterals and storm sewers; installation of street lighting; and other improvements. Because the assessment is collected on a pay-as-you-go basis, it is not factored into the selling price of a new home. Local government authority to impose special assessments derives from state enabling legislation, state general grant of taxing authority or home rule powers.

Special Districts are a form of limited-purpose local government authorized under state enabling legislation to tax, issue debt and provide services such as drainage, street lighting, recreation, water distribution and sewerage treatment within a designated area. Usually created prior to development, special districts pledge collected user fees or taxes against the retirement of debt issued to finance public improvements. Special districts are the most common form of local government in the United States, accounting for nearly 26,000 out of 79,800 local jurisdictions in 1977, an 8.8 percent increase since the previous census in 1972, according to the Census Bureau. Special districts have proliferated recently because they enable local governments to solve growing service needs that often transcend political boundaries. Further, special districts circumvent the debt and tax limits that constrain municipal investment in new services.

Public-Private Financing

Privatization is a relatively new trend in infrastructure financing. Under privatization, a municipality contracts with a for-profit or non-profit corporation or a nearby local government to provide such services as fire and police protection. Services are paid for through general tax revenues or user charges. Contracting can be a more cost-effective way or providing services because, unlike cities that enjoy a monopoly on service delivery, contractors must compete with other service providers in the free marketplace. Privatization can also occur as a more complex public-private partnership involving private sector financing, construction, ownership or operation of facilities traditionally financed, constructed and operated by the public sector.

The consumer, private industry and government are potential beneficiaries of a privatization arrangement. When properly structured, a privatization transaction can open up communications, providing a new private sector investment opportunity and allowing the public sector to reduce user fees. Privatization can enable the government to take advantage of private sector expertise in financing, designing, constructing and operating large-scale facilities. At the same time, depending on the specific arrangement and method of capital formation, the private entity may be able to take advantage of the tax-exempt status of the local government.

Privatized construction is sometimes more efficient because of reduced federal and state regulatory involvement. In addition, certain federal procurement procedures can be ignored. Services can also operate more efficiently when private providers operating multiple facilities achieve economies of scale through sharing resources and purchasing supplies in bulk.

Although privatization remains largely untested, private investment houses, engineering firms and product suppliers regard it as an opportunity for expanding their markets, limiting their tax liability and receiving a fair investment return. In fact, it is not unusual for private concerns to approach local governments with proposals for privatization partnerships. From the perspective of the home building industry, privatization is a potentially important source of financing that may eventually play a vital role in restoring and expanding infrastructure, thus surmounting a major impediment to residential expansion across the country. ■

Source: HOUSING AMERICA -
The Challenges Ahead.
The National Association of
Home Builders, 1985.

Senator **Cranston**. Thank you very much, Dale. You made a very good point about our need to get the tax-writing committees involved in this and we will need the help of you, who support these efforts, to help bring that about. We will be doing what we can, but you've got to help us.

Our next witness is Nestor R. Weigand, Jr., president of the National Association of Realtors. We welcome you.

Senator **D'Amato**. If I might, Mr. Chairman, I'd like to also welcome Mr. Weigand here and just relate briefly that Nestor came down as the president of the Association of Realtors to New York to see firsthand the Nehemiah program. That was not without some risk, I might add. He was involved in one of our famous New York taxicab accidents along the way. He did get there. I know that today's appearance has gone far more smoothly and I also note that the Kansas Jayhawks took home a championship that our Syracusians should have. If we had your coach, Larry Brown, who used to be a neighbor, I think we could have. Now the coach at Syracuse isn't going to be very happy about that. It's good to see you here.

Senator **Cranston**. Is Mr. Weigand from Kansas?

Senator **D'Amato**. Yes.

Senator **Cranston**. Well, kindly speak to one Robert Dole about the importance of the tax-writing aspects of this. [Laughter.]

STATEMENT OF NESTOR R. WEIGAND, JR., PRESIDENT, NATIONAL ASSOCIATION OF REALTORS

Mr. **Weigand**. I'm Nestor Weigand, Jr., a realtor from Wichita, KS, president of the National Association of Realtors, and I might say parenthetically, Mr. Chairman, that we would like to congratulate you on your efforts on behalf of the 1987 housing bill and compliment you and Senator D'Amato for what you did and the efforts that you made for improving the housing situation for all Americans and we compliment you at the outset.

Senator **Cranston**. We both thank you.

Mr. **Weigand**. We are pleased to comment on the recently published report that Mr. Maxwell and Mr. Rouse talked about, "A Decent Place to Live."

The National Association of Realtors concurs with the task force's fundamental assertion that housing plays a vital role in human and community development. The Nation's historic commitment to housing has involved a joint public-private sector partnership that has yielded bountiful opportunities many Americans enjoy today. We believe that continued success in addressing the Nation's housing problems and developing new solutions will involve a continued partnership of government, industry, including the highly competitive home building industry, which Dale Stuard addressed and a resourceful and flexible housing finance system that combines private and government insurance, which John also touched on.

Mr. Chairman, our written statement contains the details of the position of the National Association of Realtors on many of the task force recommendations. We are continuing our examination and evaluation of this report and would appreciate the opportunity to comment at some future point on several of the recommendations for which we have no present position.

Additionally, we would appreciate the opportunity to comment separately on the specific legislative proposals that are advanced to implement these particular recommendations.

I wish to comment specifically today on two aspects of the task force recommendations that are of special interest to our members.

First is the recommendation to enhance the Federal and State level home ownership programs; and second is maintaining the housing finance system. We highlight these recommendations because we believe the cornerstone of a national housing policy should be the promotion of home ownership opportunities.

We believe in home ownership because the opportunity to own a home motivates all sectors of American society toward common economic and social goals.

In terms of the Federal home ownership program, we share the task force's belief that the federally sponsored mechanisms for funding assistance for home ownership should, where feasible, operate without substantial direct subsidy cost to the Federal Government, that it should focus on first-time home buyers, particularly those of low and moderate incomes, and contemplate the repayment or reduction of direct assistance.

The Federal Government's primary mechanism for promoting first-time home ownership is the FHA mortgage insurance program and the realtors strongly support the continuation of this FHA program as we have done in the past and will continue to support the program and the changes that reflect the changing market conditions and the consumer demands.

As far as the housing finance system, for more than a half century the task force notes the Federal Government has facilitated the flow of funds to housing through both direct and indirect supports and especially through the creation of a variety of institutions to buttress the housing finance system, and the National Association of Realtors strongly supports the task force recommendation that the housing finance system be maintained.

We intend, Mr. Chairman, to continue to defend the housing finance system against both legislative and regulatory attempts to impose additional costs or burdens on the successful program of Ginnie Mae, Fannie Mae and the Federal Home Loan Mortgage Corporation.

We believe that the establishment of the national housing policy is of utmost importance. The report of the National Housing Task Force, "A Decent Place to Live," is a valuable starting point for addressing the nation's housing problems.

We share the goal that the revitalized national housing policy should be established rapidly and carried forward vigorously, and the National Association of Realtors wish to extend to you our commitment to work towards a national housing policy goal and to fulfill the legitimate expectations of decent housing for all Americans.

Thank you for the opportunity to be here.

[The complete prepared statement of Mr. Weigand follows:]

affordable. By restoring housing as a top national priority, we can, and will, ensure that housing truly will be the American promise.

Thank you for the opportunity to appear before this joint committee hearing. We look forward with enthusiasm, Mr Chairman, to continuing this open dialogue and working with you, members of the Senate and House subcommittees on housing, and your very professional and dedicated staffs. I will be happy to respond to any questions you may have.

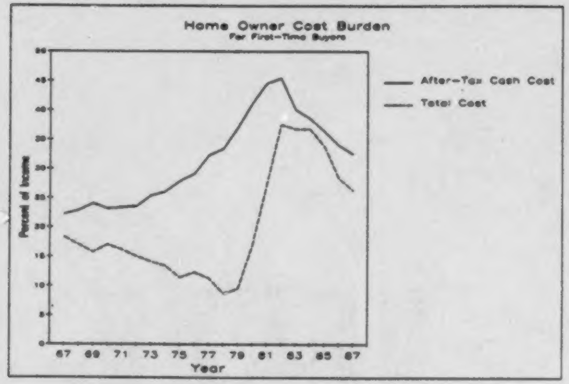
TABLE I

HOMEOWNERSHIP RATES BY REGION AND AGE
(Percent Home Owner)

Region	1973	1976	1980	1983	1987
Northeast	59.2%	59.8%	60.7%	61.4%	61.4%
Midwest	69.1	69.5	70.3	70.0	67.1
South	66.5	66.4	68.3	67.1	66.9
West	60.6	61.2	60.5	58.7	57.9
Age					
Under 25	23.4%	21.0%	21.3%	19.3%	16.1%
25-29	43.6	43.2	43.3	38.2	35.9
30-34	60.2	62.4	61.1	55.7	53.2
35-39	68.5	69.0	70.8	65.8	63.8
40-44	72.9	73.9	74.2	74.2	70.6
45-54	76.1	77.4	77.7	77.1	75.8
55-64	75.7	77.2	79.3	80.5	80.8
65-74	71.3	72.7	75.2	76.9	78.1
75+	67.1	67.2	67.8	71.6	70.7
Total	64.4	64.8	65.6	64.9	64.0

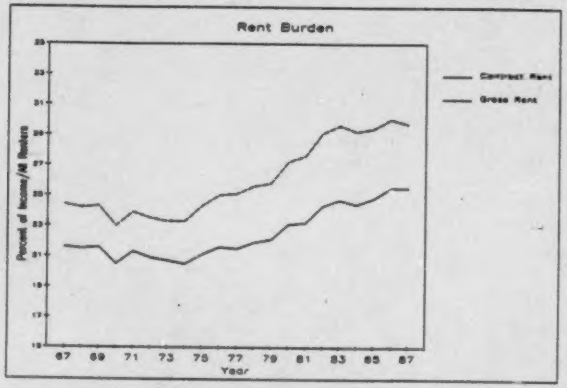
Source: 1973 to 1980 from Annual Housing Survey
1983 to 1987 from Current Population Survey

TABLE II



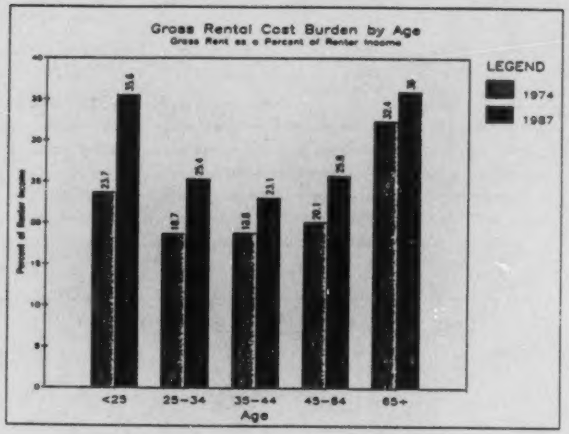
- **Home owner cost burden is after-tax cash cost or total cost as a percent of annual income of potential first-time home buyers as proxied by the median family income of married couple renters aged 25-29. After-tax cash cost equals mortgage payments and other costs of homeownership (property tax, insurance, fuel and utilities and maintenance) less tax savings of homeownership. Total cost equals after-tax cost plus opportunity cost of downpayment and amortization of fees and closing costs less expected equity buildup.**

TABLE III



- **Contract rent equals payments to property owner services. Gross rent equals contract rent plus fuel and utilities, property taxes and insurance paid by the tenant. Rent burden is annual contract or gross rent as a percent of median income of renter households.**

TABLE IV


Gross Rental Cost Burden by Age
Gross Rent as a Percent of Renter Income
Percent of Renter Income
40
35
30
25
20
15
10
5
0
23.7
35.6
18.7
25.4
18.8
23.1
20.1
25.8
32.4
36
<25
25-34
35-44
45-64
65+
Age
LEGEND
1974
1987

STATEMENT OF THE
NATIONAL ASSOCIATION OF REALTORS®
BEFORE A JOINT HEARING OF THE
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
OF THE
U.S. SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
AND THE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
OF THE
U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON
BANKING, FINANCE, AND URBAN AFFAIRS
BY
NESTOR R. WEIGAND, JR.
PRESIDENT
APRIL 12, 1988

INTRODUCTION

Mr. Chairman, my name is Nestor Weigand. I am a REALTOR® from Wichita, Kansas, and I am the President of the NATIONAL ASSOCIATION OF REALTORS®. On behalf of the more than 800,000 members of the NATIONAL ASSOCIATION OF REALTORS®, I would like to congratulate you on the passage of the 1987 Housing Bill and thank you for your many efforts to expand and improve homeownership opportunities for all Americans. Mr. Chairman, thank you also for your leadership in assuring a proper and effective partnership between the Federal government and the private sector in promoting homeownership. To that goal, Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® is pleased to offer its comments on the recently published report of the National Housing Task Force, entitled "A Decent Place to Live."

THE REPORT OF THE NATIONAL HOUSING TASK FORCE: A DECENT PLACE TO LIVE

Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® concurs with the Report's fundamental assertion that housing plays a vital role in human and community development. This nation's historic commitment to housing has yielded the many housing opportunities and resources that many Americans today enjoy. Our nation's commitment to housing has traditionally been a joint venture – a partnership of government and industry. We believe that continued success in addressing this nation's housing problems, and developing new solutions will involve the continued partnership of government and industry: including an active role for the Federal government; an efficient, highly competitive homebuilding industry to produce more and better housing; a resourceful and flexible housing finance system that combines private and government insurance and guarantees with a thrift industry and secondary market to make homeownership a reality for middle-income as well as upper-income Americans.

Mr. Chairman, the Task Force Report, "A Decent Place to Live" is a valuable blueprint for designing this nation's future housing policy and identifying the proper role of both government and industry. We are grateful for the opportunity to offer our perspective on that blueprint today. The NATIONAL ASSOCIATION OF REALTORS® would also appreciate the opportunity to comment separately, at the appropriate forum, upon any specific legislative proposals that initiate from the Task Force's recommendations.

REALTOR® PRINCIPLES

The NATIONAL ASSOCIATION OF REALTORS® believes that five general principles should govern the establishment of a national housing policy. These principles, as outlined below, are the standards by which the NATIONAL ASSOCIATION OF REALTORS® evaluates the general recommendations of the National Housing Task Force.

- Homeownership is a Cornerstone of our Democratic System of Government - The opportunity to own a home motivates all sectors of American society toward common economic and social goals. Homeownership fosters pride and participation in one's community, encourages saving, and promotes social and political stability.

- Every Individual Should have the Opportunity to Live in Decent and Affordable Housing - The 1949 Housing Act set a goal of a "decent home and a suitable living environment for every American family." We believe the private sector can meet most housing needs, but that the direct assistance of the Federal government may, at times, be necessary, and should be recognized as a national priority.

- The Free Enterprise System and Competitive Markets Should Provide the Principal Sources of Homeownership Opportunities - We believe that the Federal government should not interfere in areas where housing needs may be fully met by the private sector. Furthermore, the rights of individuals to own real property and enjoy the benefits of ownership must be protected.

- Maintaining Low Real Estate Interest Rates is Essential for the Provision of Affordable Housing - The Federal government should place a high priority on pursuing a responsible mix of fiscal and monetary policies to assure a sufficient flow of affordable mortgage capital.

- The Cost of New and Existing Homes Should be Minimized - Such market restrictions as inappropriate zoning should be evaluated and amended in full consideration of potential housing opportunities.

NATIONAL HOUSING POLICY DISCUSSION

The NATIONAL ASSOCIATION OF REALTORS® recognizes and strongly supports the need for government and industry to jointly evaluate the broad range of this nation's housing problems and to construct a firm public policy foundation upon which to advance the goal of homeownership. We believe that the National Housing Task Force recommendations identify a comprehensive scope of the key national housing issues that need to be immediately addressed and we are pleased to offer our comments on each of these goals. (Please note: the NATIONAL ASSOCIATION OF REALTORS® has not approved official policy on several of the recommendations advanced by the Task Force, however, we plan to do so during our Legislative Meetings in May, 1988.)

Design and Implement a New System for Delivering Affordable Housing

The NATIONAL ASSOCIATION OF REALTORS® is very interested in the "Housing Opportunity Program" (HOP) recommended by the Task Force, whose goal is to stimulate state and local initiatives to develop, renovate and conserve housing for those in need. We believe that one of our nation's most challenging opportunities in housing lies in the recovery and rehabilitation of our neighborhoods. We applaud the action of communities which have implemented community revitalization efforts that are designed to improve the quality of life in the neighborhoods of our cities, towns and communities. Also, the NATIONAL ASSOCIATION OF REALTORS® encourages the use of non-profit and voluntary commitments in order to provide adequate housing.

The following examples illustrate how Realtors® have become involved in addressing the shelter needs of the low-income and homeless:

- The Columbus, Ohio Board of REALTORS® has engaged in a cooperative effort with the Enterprise Foundation to provide adequate housing for Columbus low-income and homeless citizens. The Columbus Board was instrumental in bringing the Enterprise Foundation to the city by arranging for public and private sector commitments.

- The Sacramento, California Board of REALTORS® organized and coordinated an effort to bring in Neighborhood Housing Services of the Neighborhood Reinvestment Corporation into the city. REALTORS® assisted by soliciting private sector financial commitments and helping to identify neighborhoods for NHS's assistance.

- The New Jersey Association of REALTORS® has been involved in a "REALTOR® Help the Homeless" Campaign with their local boards to provide non-profit organizations assistance in helping the homeless.

- The Passaic, New Jersey Board of REALTORS®, in a cooperative effort with Habitats for Humanity, donated funds for the construction of a home for a working family in need of housing.

- The Greater Baltimore Board of REALTORS® has donated funds to Project Shelter, a non-profit organization that provides aid to the area's homeless.

- In Nashville, Tennessee, the Real Estate Community Council, the community service arm of the Nashville Board of REALTORS®, conducts an annual "Tour of Homes" from which all the proceeds are donated to clothe, shelter, and feed the homeless of Nashville.

- REALTORS® in Charleston, South Carolina participate in community efforts to provide shelter to the homeless.

At the same time, we recognize that there are specialized needs which cannot be met by the local communities. We urge governments at all levels to provide cost effective solutions to the housing needs of the elderly and handicapped.

Identify New Sources of Capital and Create a New Institution to Promote Low-Income Housing

The NATIONAL ASSOCIATION OF REALTORS® will be examining the Task Force's

recommendations of drawing private funds and the private banking system into financing housing for the low-income.

Maintain and Improve the Stock of Low-Income Housing

The NATIONAL ASSOCIATION OF REALTORS® recognizes the need to preserve the current rental housing stock through recycling and renovation. We call on all levels of government to meet this demand by removing disincentives to the financing, production and improvement of rental housing for citizens of all income levels.

Mr. Chairman, the partnership between private owners and the Federal government has benefited low-income housing residents and has helped minimize the pressure on the supply of unassisted housing affordable to other low-income households. Even though the NATIONAL ASSOCIATION OF REALTORS® believes that Federal policy should work toward maintaining these relationships by renewing assistance contracts and providing appropriate inducements for continued participation by private owners, we nonetheless would oppose further attempts to abrogate an owner's right to prepay their multifamily housing loan. At the same time, we also believe that the needs of the tenants must be met while maintaining the legitimate rights of the owners to dispose of their properties.

Restore and Revitalize the Public Housing Program

The NATIONAL ASSOCIATION OF REALTORS® supports the Federal government preserving the existing public housing stock by assuring the continued availability of modernization funds. We encourage the government to use scattered site development rather than the single site public housing approach.

The NATIONAL ASSOCIATION OF REALTORS® also supports the concept of public housing homeownership provided that there are assurances that the tenant can afford all the costs of ownership; and local resources, rather than Federal resources, are utilized to the maximum extent possible to assist those persons who want to move into homeownership; and tenants are provided with professional management assistance on homeownership responsibility and property maintenance.

Utilize Tax Policy to Promote Low-Income Housing

The NATIONAL ASSOCIATION OF REALTORS® shares the Task Force's belief that tax policies that encourage the production and preservation of rental housing should be one of the hallmarks of a national housing program. The NATIONAL ASSOCIATION OF REALTORS® has many concerns about the changes made in the 1986 Tax Reform Act relating to investment real estate, most notably the passive loss limitation rules which deny the deduction of losses from all rental real estate activities against other types of income, and excessively high depreciation lives for investment real estate. We believe significant changes in the tax code with regard to real estate investment will be necessary as rental production will continue to drop in the future.

Mr. Chairman, we believe that the policy objective in this country of providing adequate housing for low-income families is a priority that supercedes tax policy considerations. Unlike other investments in real estate, low-income housing is not profitable on its own. It must, therefore, offer added incentives to induce the required capital. To improve the practicality of the low-income tax credit, we recommend that the credit be exempt altogether from the passive loss limitation under both the regular tax and the alternative minimum tax. In general, we believe the current depreciation lives for rental real estate, as enacted in the 1986 Tax Reform Act, are too high and therefore, would recommend that all real estate properties be given shorter recovery periods which actually reflect their economic lives, with a preference being applied to low-income projects. At the same time, we strongly urge Congress to repeal the current prohibition on deductions for real cash losses on all rental housing, including low-income.

The NATIONAL ASSOCIATION OF REALTORS® strongly supports legislation (H.R. 2460 and S. 1522) in the House and Senate to extend the mortgage revenue bond (MRB) and mortgage credit certificate (MCC) programs through the end of 1992. The MRB program consistently serves a first-time homebuying public which would otherwise by unable to purchase. It does so by lowering the cost of home mortgages for low- and moderate-income Americans by providing below market financing in the form of fixed-rate, low-level payment mortgages. The most direct benefit of the program for first-time homebuyers is its ability to increase the buyer's cash flow by lowering the monthly payments. These aspects of the MRB program ease homeownership affordability problems. Furthermore, the MRB program acts as a countercyclical measure against economic recession and sustains the housing market in times of high interest rates. With an MCC, a homeowner may take a credit each year against his or her tax liability for a portion of the mortgage interest. While MCC's do not create the loan funds needed to purchase a home that the MRB program does, the program gives the homebuyer the extra income needed to qualify for a conventional loan.

As confirmed by the NATIONAL ASSOCIATION OF REALTORS® National Homeownership Survey, the inability to accumulate sufficient downpayment funds is one of the major obstacles to homeownership among Americans, particularly in the current environment of increasing home prices in many sectors of the country. We strongly support the Task Force's recommendation of allowing the use of IRA, 401(k), or other retirement plans to be used as a saving incentive for millions of Americans who want to purchase but are unable to come up with the necessary funds to qualify.

The NATIONAL ASSOCIATION OF REALTORS® offers the following comments on the changes to the tax credit recommended by the Task Force:

a. Eliminate the 1989 Sunset Date, Extending the Program Indefinitely.

Clearly, the current provision requiring that the credit be sunset by the end of 1989 causes uncertainty in planning decisions of many developers who would otherwise be interested in undertaking rehabilitations or acquisitions of low-income properties. Consequently, Congress should act expeditiously to extend the credit beyond 1989 and to make it permanent.

b. Remove Penalties on the Use of Tax Credit With Tax-Exempt Financing and Other Federal Assistance Programs.

Many existing low-income properties (i.e. Section 236) impose restrictions limiting the yield from the cash invested in the projects. In order to provide incentives for low-income owners to continue to operate projects under Section 236 and other subsidy programs for the benefit of low-income tenants, the NATIONAL ASSOCIATION OF REALTORS® would recommend that the restriction on the yield from cash investments be lifted.

c. Provide Full Exemption from the Passive Loss Rule and the Alternative Minimum Tax for Low-Income Tax Credit Projects.

Present law restricts the availability of the low-income housing credit to investors whose adjusted gross incomes do not exceed $200,000. If this threshold is exceeded, the credit begins to phase out and is totally eliminated at $250,000 of adjusted gross income. Consequently, investments in low-income housing projects qualifying for the credit have largely been the province of corporate investments, which generally are able to utilize the credit without limitation under the passive loss rules.

The segment of the NATIONAL ASSOCIATION OF REALTORS® that has had practical experience working with the new low-income housing credit has stressed that the most important change that could be made to improve the workability of the credit would be to exempt the credit altogether from the passive loss limitation under both the regular tax and the alternative minimum tax. While such an exemption represents a bold departure from the tax policy principles enunciated in the Tax Reform of 1986, the NATIONAL ASSOCIATION OF REALTORS® believes that the policy objective in this country of providing adequate housing for low-income families is a priority that overrides tax policy considerations.

d. Permit Low-Income Housing Tax Credits to be Sold to Investors.

The NATIONAL ASSOCIATION OF REALTORS® has no current policy on this Task Force recommendation.

e. Permit the Carryover of Tax Credit Authority and Its Reallocation Among States.

The NATIONAL ASSOCIATION OF REALTORS® supports the recommendation to allow unused tax credit authority to be reallocated among states. This would permit greater use of the credit nationwide and thus help resolve the problem that since 1986, only a small portion of total authority of the credits have been utilized.

f. Allow Greater Flexibility in Allocating Tax Credits.

The NATIONAL ASSOCIATION OF REALTORS® agrees with the Task Force that owners should be permitted to allocate tax credits to investors according to their capital contributions to a project. We feel this feature would enhance the attractiveness of the credit to prospective investors.

8. Allow Greater Flexibility for Investors to Donate Interests.

The NATIONAL ASSOCIATION OF REALTORS® has no current policy on this Task Force recommendation.

Lessen the Gap Between Housing Costs and Income

The NATIONAL ASSOCIATION OF REALTORS® concurs with the Task Force's assessment that current opportunities for low-income individuals to achieve personal growth are integrally linked to the enhancement of communities and subsequently to the improvement in the services government delivers to its citizens. We further agree with the Task Force's conclusion that "the resolution of the housing problem facing low-income people cannot await a good and permanent solution to the underlying problem of poverty."

The NATIONAL ASSOCIATION OF REALTORS® recognizes that affordability problems have become more pervasive and as such direct federal assistance is necessary in certain situations to alleviate the rent burden of those in need. As far as tenants currently paying 30% of their adjusted income for rent, we will be examining the Task Force's recommendation of requiring a sliding scale of tenant payments based upon family size and income.

Enhance Federal and State-Level Homeownership Programs

The NATIONAL ASSOCIATION OF REALTORS® shares the Task Force's belief that the Federally-sponsored mechanisms for furnishing assistance to homeowners should (a) operate without substantial direct subsidy cost to the Federal government, (b) focus primarily on first-time homebuyers, particularly those of low and moderate incomes, and (c) contemplate the repayment or reduction of direct assistance, where feasible.

FEDERAL HOUSING ADMINISTRATION (FHA)

The Federal government's primary mechanism for promoting first-time homeownership consists of the Federal Housing Administration (FHA) mortgage insurance program. The NATIONAL ASSOCIATION OF REALTORS® strongly supports the continued role of the FHA program and, as we have done in the past, will continue to support program changes that reflect ever-changing market conditions and consumer demands of first-time, and low-to-moderate income homebuyers. The following are our comments on the specific recommendations of the Task Force affecting the FHA mortgage insurance program:

Adjustable Rate Mortgages (ARM's).

The NATIONAL ASSOCIATION OF REALTORS® believes that the FHA ARM program has proven to be a valuable product for first time and low-to-moderate income homebuyers. We presently have no policy on the Task Force's recommendation that Congress authorize an FHA ARM product with a 2 percent annual cap and 5 percent lifetime cap to accompany FHA's present 1 percent annual cap and 5 percent lifetime cap product, however we note that the proposed ARM product is widely and successfully utilized in the conventional mortgage market. We similarly plan to examine the recommendation for eliminating the 30 percent cap on FHA ARM lending.

The NATIONAL ASSOCIATION OF REALTORS® concurs with the recommendation that the U.S. Department of Housing and Urban Development (HUD) should monitor the costs experienced by the FHA ARM program to assure that they stay at acceptable levels. And finally, we plan to examine further the recommendation that FHA utilize its Temporary Mortgage Assistance Payments Program (TMAP) to assist FHA, ARM-financed, homeowners should defaults arise from maximum increases in FHA ARM rates.

FHA Maximum Mortgage Limit

The Task Force's recommendation that FHA mortgage limits be established at 95 percent of a location's (metropolitan statistical area, or county) median home sales price, with no maximum mortgage amount will likely benefit those cities where the recently increased $101,250 FHA maximum mortgage amount still does not reflect the price of homes that are available for the first-time and low-to-moderate income homebuyers served by the FHA program. The Task Force recommendation recognizes the extreme variations that exist between housing markets, across the nation. The NATIONAL ASSOCIATION OF REALTORS® has not approved policy on this particular recommendation, however, will examine it shortly. Similarly, we wish to further investigate the proposal to establish separate FHA mortgage limits for new homes and existing homes.

FHA Downpayment Requirements

The NATIONAL ASSOCIATION OF REALTORS® has not approved policy on the recommendation of the Task Force that FHA-insured financing should be available for 97 percent of a home's value up to $50,000, and 95 percent of the home's value over $50,000. The present FHA downpayment requirement is 97 percent of a home's value up to $25,000, and 95 percent of the home's value over $25,000. Additionally, for homes with a value up to $50,000, FHA permits 97 percent. As stated earlier, the rising cost of homes, has resulted in the fact that fewer Americans are able to afford downpayments for a home purchase. The ability to pay a downpayment is the threshold step to homeownership. The ability of the FHA program to promote homeownership opportunities for first-time, and low-to-moderate income homebuyers, would likely be enhanced by implementation of this recommendation, however, we wish to reserve specific comment on this provision until after our legislative review meetings.

VETERANS ADMINISTRATION (VA) HOME LOAN GUARANTY PROGRAM

We are pleased to note that the Task Force recognizes the Veterans Administration (VA) home loan guaranty program for its function as a valuable component of this nation's national housing policy. Unlike the FHA program, however, the VA program is presently experiencing a severe depletion of its capital – which threatens the continued viability of the program as an entitlement program for veterans. We are grateful, Mr. Chairman, that in your capacity as Chairman of the Senate Committee on Veterans' Affairs, you have taken constructive steps to fully evaluate the problems faced by the VA and to assure the continuation of the home loan guaranty program.

The NATIONAL ASSOCIATION OF REALTORS® notes the Task Force's recommendation for the creation of a VA adjustable rate mortgage (ARM) program. Adjustable rate mortgages are a widely utilized, and highly successful product in the conventional mortgage market, and we plan to evaluate, at our legislative meetings, its appropriateness for the VA program.

Maintain the Housing Finance System

"For more than half a century," the Task Force Report notes, "the federal government has facilitated the flow of funds to housing through both direct and indirect supports and especially through the creation of a variety of institutions to buttress the housing finance system." The NATIONAL ASSOCIATION OF REALTORS® strongly supports the Task Force recommendation that the housing finance system be maintained. We intend to continue to defend the housing finance system against both legislative and regulatory attempts to impose additional costs or burdens on the successful programs of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC) – including actions that would undermine these programs in pursuit of other purposes, such as increased government revenue.

Senator CRANSTON. Thank you very, very much.

Our next panelist is William A. Simpson, president of Mortgage Insurance Companies of America.

STATEMENT OF WILLIAM A. SIMPSON, PRESIDENT, MORTGAGE INSURANCE COMPANIES OF AMERICA

Mr. SIMPSON. Thank you, Senator Cranston.

I am William A. Simpson, president and CEO of Republic Mortgage Insurance Co., and I am currently serving as president of the Mortgage Insurance Companies of America, called MICA.

MICA is a trade association representing the entire domestic mortgage insurance industry. Our industry has today some $2 billion in private capital and reserves ready and willing to support the residential mortgage market in this country. We appreciate the opportunity to appear today and make comments regarding the task force report.

I would like now to comment briefly today on the recommendations regarding the expansion of FHA and offer some alternative recommendations on how to expand home ownership opportunities to more lower income people and to first-time home buyers.

We believe that any solution to housing affordability must address two issues: How can we help lower income people purchase homes, but perhaps more importantly, how can we ensure that they will be able to afford their homes far into the future? The last issue was not discussed in the task force report, but MICA believes it is imperative that we must focus on it. It is a much overlooked fact that if the level of foreclosures did not increase during the 1980's, this home ownership rate would not only have been sustained but would have increased. Specifically, it is MICA's view that instead of a drop in the home ownership rate of 1.8 percent from 1980 to 1986, the rate would have increased if we had not experienced a quadrupling of the rate of foreclosures on residential mortgages. We would estimate today that some 200,000 to 250,000 homes are in the process of foreclosure in this country.

MICA believes the Subcommittee should reevaluate the task force report recommendations with regard to the expansion of FHA because such changes would do little to increase home ownership opportunities for lower income people and would likely result in more foreclosures.

First, regarding the task force recommendation to expand FHA ARM programs. Specifically to those with the 2-percent cap variety, it is our view that offering higher risk ARM's to families with lower incomes and little net worth might initially put more people in homes, but it will ultimately result in an increase in mortgage defaults. Do we really want to permit borrowers to purchase $60,000 homes with a $400 monthly payment and then some 25 months later be faced with a payment as high as $533?

Second, we believe that raising the FHA loan limits to 95 percent of the median sales price in the market also will not help low income borrowers. The use of Government assistance must be determined by the income of the borrower, not by the price of the home.

Finally, the task force also recommends that the downpayment requirements of FHA insured loans be reduced on higher priced homes. In light of the fact that recent FHA experience shows default rates of 30 percent for loans with less than 5 percent downpayment, one has to ask whether we want to place people in homes if they cannot afford to stay there. Who profits if families purchase a $150,000 home with only a $6,500 downpayment and a few years later 30 percent default, leaving behind a $55,000 loss for the FHA on each loan?

The task force does recommend suggestions regarding the use of IRA's and 401(k) plans which would be much more worthwhile in an effort to assist low income first-time home buyers. In fact, MICA urges Congress to consider a program to permit low income first-time home buyers to set up an account similar to the old-style IRA in which the monies would be used to purchase a home, help these people save money for homes. Do not help them undertake financial burdens for which they cannot manage.

MICA believes that in order to expand home ownership opportunities for those at the margin Congress needs to redirect both Ginnie Mae and FHA. In recent years the secondary market has grown in importance and in its ability to influence those who receive mortgage credit and the terms of that credit. Lenders must concentrate primarily on the requirements of the investor in mortgages in order to preserve a profitable mortgage banking operation. Because Ginnie Mae is the primary outlet for FHA, it directs who FHA serves. Ginnie Mae represents the lowest cost, most affordable home loan contract today and represents a concept consistent with serving those at the margin.

Therefore, any plan to help lower income people purchase homes should rightfully include a plan for Ginnie Mae.

FHA also needs to be redirected to better serve the home financing needs of lower income people. This is particularly true now since FHA is insuring more than our industry.

Over time many changes have occurred in the FHA 203 program, many of which have gotten off track. For example, in 1986, 42 percent of the FHA borrowers had incomes over $40,000; $40,000 is 140 percent of the U.S. median income.

I would shorten my comments in the interest of time and simply point out to the committee that the FHA, we feel, needs to be directed along with Ginnie Mae.

We also have some serious concerns about the financial viability of FHA. Recent statistics, particularly the default statistics of 1987, give our professionals many concerns about FHA's viability. Today it's been said an FHA loan does not cost this Government anything. But in an actuarial sense, it's possible that in a few years it could cost this Government a great deal. We are concerned about FHA. We think it should be looked at very carefully. We are in support of a strong 203(b) program, but not at the sacrifice of our industry.

Thank you.

[The complete prepared statement of Mr. Simpson follows:]

Promote Fair Housing Practices

Mr. Chairman, let me begin by stating that the NATIONAL ASSOCIATION OF REALTORS® is firmly committed to assuring all persons in the United States equal housing opportunity without regard to race, color, sex, religion or national origin. We understand this to be the mandate of Title VIII of the Civil Rights Act of 1968, this Nation's fair housing statute. However, we feel compelled to take issue with several of the conclusions reached in the Report concerning fair housing enforcement.

First, the Report states that "recent reports confirm that the average minority household—regardless of economic status, and whether seeking to buy a home or rent an apartment—encounters racially based discrimination when it enters the housing market." This statement does not square with data maintained by HUD, which shows that an overwhelming majority of the complaints filed with HUD concern alleged discriminatory housing practices in the rental sector. Only a small fraction of these complaints involve the sale of single family homes. Moreover, the total number of complaints filed with HUD is only a minute fraction of the total number of real estate transactions, both rental and sale, that take place throughout the year. The data simply does not square with Report's assertion that "the average minority household... encounters race based discrimination when it enters the housing market."

The Report also seems to suggest that the Fair Housing Initiatives Program (FHIP) authorized as part of the 1987 Housing bill should have been authorized beyond a two year demonstration project. Mr. Chairman, the FHIP program, as the Senate Banking Committee reported out and is currently authorized, permits HUD to provide federal funds over a two year demonstration period to wholly private not-for-profit housing centers for the purpose of testing real estate brokers, provided that the federally funded testing was done according to certain guidelines designed to insure the objectivity, reliability and inherent fairness of the tests.

We believe that the FHIP program is unprecendented in that it authorizes direct federal grants for enforcement purposes to private organizations.

Thus, we firmly believe Congress acted responsibly by authorizing the Program as a two year demonstration project, with specific direction to the Secretary of HUD to enact regulations governing the availability of FHIP funds that insure that the tests funded by FHIP are conducted objectively and fairly.

The Report also urges that HUD "be empowered to issue restraining orders and to adjudicate remedies in administrative law proceedings." This quoted statement illustrates precisely why the enforcement of Title VIII through HUD administrative law judges is almost certainly unconstitutional. The Department of HUD is in the Executive Branch, which is the Branch that executes the laws and prosecutes law violators. The "adjudicative" function, and the issuance of remedial orders upon finding that the law has been broken, is a function reserved by Article III of our Constitution to the Judicial Branch. The separation of prosecutorial functions from the judicial functions is one of the "concepts of ordered liberty" upon which our constitutional form of government is based. A HUD administrative law proceeding combines within HUD the role of judge, jury and prosecutor, and also denies the defendant a constitutionally guaranteed right to a trial by jury. This basic conclusion has been reached by the Attorney General's office of both the Carter and Reagan Administrations.

The NATIONAL ASSOCIATION OF REALTORS® favors a system of enforcement that leads to quicker adjudications. But we are not in favor of such a system to the extent it denies defendants their constitutional rights.

The Report further opposes the federal government committing enforcement resources to cases against local agencies and developers who have adopted occupancy plans, such as racial quotas, for the purpose of maintaining integration or racial stability. Mr. Chairman, we would like to point out that the United States Court of Appeals recently struck down the use of racial quotas for the sake of integration maintenance in United States v. Starrett City Associates, Inc. The NATIONAL ASSOCIATION OF REALTORS® believes that more, not fewer, enforcement resources should be expended to eliminate these types of marketing techniques.

Improve Housing Programs for Rural America

In relation to the Task Force's statement that the Federal rural housing program currently in place should be used to the greatest extent practicable in improving housing and living conditions in rural areas, the NATIONAL ASSOCIATION OF REALTORS® has established a coordinating network with the Farmers Home Administration in order to promote mutually favorable working relationships at the federal, state and local level.

NAR believes that the Farmers Home Program should be redirected to target low-income and first-time homebuyers. Also, the entire loan origination process should be streamlined in order to make better utilization of the program and loan limits should be tied to increasing housing costs. The Farmers Home Administration should establish a direct line of authority so that all county and district offices within each state utilize the same guidelines.

CONCLUSION

Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® believes that the establishment of a National Housing Policy is of utmost importance. The report of the National Housing Task Force, "A Decent Place to Live" is a valuable starting point for addressing this nation's housing problems.

The NATIONAL ASSOCIATION OF REALTORS® shares the goal that a revitalized national housing policy should be established rapidly and carried forward vigorously. And, on behalf of the NATIONAL ASSOCIATION OF REALTORS®, we wish to extend to you our willingness and commitment to work toward that national housing policy goal, and, as the Report states, "to fulfill the legitimate expectations of decent housing for all Americans".

Thank you for the opportunity to testify today. I will gladly answer your questions.

Statement of William A. Simpson, President
Mortgage Insurance Companies of America (MICA)*
Before the Joint Hearing of Senate Subcommittee On Housing
Urban Affairs and the House Subcommittee On Housing And Committee
Development To Discuss The National Housing Task Force Report
Recommendations On Homeownership Affordability
And Their Legislative Implications

Tuesday, April 12, 1988
Dirksen Senate Office Building

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*MICA consists of the thirteen domestic private mortgage insurance companies which represent the active firms that help loan originators and investors make funds available to homebuyers by protecting these institutions from a major portion of the risk of default. The current MICA officers are President, William A. Simpson of Republic Mortgage Insurance Company, Winston-Salem, NC; and Vice President, William Lacy of Mortgage Guaranty Insurance Corporation, Milwaukee, WI; Secretary/Treasurer, J. Edward Carlton, Jr., of Integon Mortgage Guaranty Insurance Corporation, Winston-Salem, NC. MICA also has member companies in Canada and Australia. At the end of 1987, the industry had over $213 billion of insurance in force. The current members of MICA include Commonwealth Mortgage Assurance Company, Foremost Guaranty Corporation, General Electric Mortgage Insurance Companies, Home Guaranty Insurance Corporation, Integon Mortgage Guaranty Corporation, Investors Mortgage Insurance Company, Mortgage Guaranty Insurance Corporation, PMI Mortgage Insurance Co., Republic Mortgage Insurance Company, Triad Guaranty Insurance Corporation, United Guaranty Corporation, U.S. Mortgage Insurance Company, Verex Assurance, Inc., The Mortgage Insurance Company of Canada and Mortgage Guaranty Insurance Company of Australia.

Mr. Chairman and Members attending this Joint Hearing:

I am William A. Simpson, President of Republic Mortgage Insurance Company and President of the Mortgage Insurance Companies of America (MICA), the trade association representing the entire domestic mortgage insurance industry.

MICA commends Senators Cranston and D'Amato for initiating the effort of the National Housing Task Force in order to establish a framework for the discussion of future housing policy. A dialogue has been achieved thanks to the efforts of all those who contributed work to the Task Force. The task ahead, however, is to build upon this framework with realistic housing policy changes that can be phased in as our nation moves toward the 1990's and beyond.

MICA appreciates this opportunity to comment on the Report of the National Housing Task Force (Task Force Report) and to offer its views on how to structure a new national housing policy. As you know, MICA testified at a field hearing in Los Angeles last week on the goals and recommendations of the Task Force Report as they relate to high cost areas such as California. I will now comment on the recommendations regarding FHA and will offer some alternative recommendations on how to expand homeownership opportunities to more lower-income people.

MICA strongly supports the basic message of the Task Force Report, that the federal government needs to renew its commitment to provide affordable housing to those most in need. National housing policy has been successful in meeting the needs of middle and upper-income people, but those families at the margin of homeownership have not been adequately served.

MICA is also concerned with the ability of people to keep their homes. Mortgage insurers have a unique perspective on housing affordability because the industry is motivated to look not only at how housing policy will help borrowers afford to purchase a home, but also at how policy may affect the long term ability of that borrower to stay in his home. We believe that a successful housing policy cannot be based solely upon the volume of homes sold or loans closed but that Congress must also consider affordability in light of the costs that result from foreclosure.

Note, for example, the recent drop in homeownership discussed in the Task Force Report. The Report emphasizes that during the period from 1980 through 1986 there has been a small but steady decline in the nation's homeownership rate. The number of homeowners fell during these six years from 65.6 percent of America's households to 63.8 percent. With this drop of 1.8 percent, the Report notes, that "nearly two million fewer families own homes today than would have, had the prior rate been sustained." This decline, as expected, has fallen hardest on those with lower incomes.

MICA has examined one reason for this decline that was not discussed in the Task Force Report; many families were forced to leave their home because they were unable or unwilling to make their mortgage payments. The Mortgage Bankers Association of America's *National Delinquency Survey* shows an increase in the percentage of residential loans in foreclosure from .38 percent in 1980 to .96 percent in 1986. These statistics also suggest that one to one half percent of all residential loans may have been foreclosed upon in 1987. It is a much overlooked fact that if the number of families going to default had remained at pre-1980 levels, the nation's homeownership rate would not only have been sustained but would have increased.

As a result of our concerns, our comments today will have two basic themes - - 1) how can we help lower-income people purchase homes and 2) how can we ensure that they will be able to afford their homes far into the future. We will discuss these two themes in light of the Task Force recommendations and our own recommendations.

TASK FORCE RECOMMENDATIONS

MICA believes the Subcommittee should reevaluate the Task Force Report's recommendations with regard to the expansion of FHA because we believe if such changes were introduced into the market they would do little to increase homeownership opportunities for low income people. Unlike the recommendations on mortgage revenue bonds and local initiatives, the Report does not advocate targeting FHA. As discussed in detail in our statement in Los Angeles, we are particularly concerned that the Task Force recommended the following three changes to FHA: 1) expanding the availability of adjustable rate mortgages (ARMs); 2) raising the mortgage limits; and 3) reducing downpayments. We believe that the Task Force failed to consider the effect of the recommendations upon helping lower income people and on the need to adequately protect against foreclosure. If an expansion of FHA were implemented as proposed by the Report, it would clearly benefit higher income people leading to a further misallocation of government resources for the reasons discussed below.

Expand FHA ARM Program

Any recommendation for the problem on housing affordability should never result in an increase in foreclosures and empty homes. Offering more risky ARMs to families with lower incomes and little net worth will in fact result in an increase in mortgage defaults. ARMs are designed for families who have sufficient income and financial assets to absorb potentially higher housing payments. Families who cannot afford the payments on a fixed rate mortgage can hardly be expected to afford tommorow's payments on ARMs. Every ARM has the potential for significantly higher mortgage payments in the future. Many ARMs today are being offered at initial teaser rates of seven percent. In just 25 months after closing, it is highly probable that the new ARM rate will be 10 percent, the same rate as now exists on most fixed rate mortgages. On a $60,000 initial mortgage amount the initial ARM payment would be $400 per month; 25 months later the ARM payment at a rate of 10 percent would be $533, an increase of 33 percent. Do we really expect people, who cannot qualify now for a fixed rate loan, to be capable of making a 33 percent higher mortgage payment in two years?

It is MICA's view that expansion of FHA authority to offer more ARMs will not legitimately assist people at the margin of

homeownership because ARMs are financial instruments that only work for higher income households. In addition, the changes suggested to the FHA ARM program will only result in making the loan instrument more attractive to investors and, therefore lenders, but will have little benefit to low income homebuyers.

Increasing FHA Loans Limits

Raising the FHA loan limits to 95 percent of the median sales price in the market also will do little to help low income borrowers. The use of government assistance must be determined by the income of the borrower, not by the price of the home being purchased. People with lower incomes have less homeownership options and income is a far better measure of the need for housing assistance in every market area. A recommendation urging that the federal program's eligibility be determined by the price of the home relative to prices in that market directly contradicts the idea that government resources should be targeted to those most in need. A policy that makes federal assistance available to buy a home in a wealthy area as easily as in a more modest area may be politically expedient for some to advocate but it is unrealistic and inappropriate.

Lowering FHA Downpayments

The Task Force Report also recommends that the downpayment requirements of FHA insured loans be reduced on higher priced homes. In light of the fact that FHA experience* shows that 20 to 30 percent of the 203(b) mortgages insured by FHA in the early 1980's with less than five percent downpayment has or will result in foreclosures, one has to ask whether we want housing policy to place people in homes if they cannot stay in them.

We believe it is appropriate for the government to take greater risks on the loans to borrowers with lower incomes whose needs are greater but not take more risk for higher income people. Since lenders already favor larger loans to smaller loans, this recommended policy will create a greater proportion of large high risk loans insured by FHA. This will reduce FHA resources available to back smaller loans and reduce the actuarial soundness of the FHA program, which is contradictory to the direction the Task Force believes national housing policy should take.

The Task Force recommendations regarding the use of IRAs or 401(k) plans would be a much more worthwhile effort to assist households, particularly first-time homebuyers, to bridge the affordability gap. We should all be searching for efficient methods whereby more lower income families can purchase homes and stay in them. In fact, MICA believes that Congress should consider a program to permit first time homebuyers to set up a self-funded plan, similar to the old style IRA, and the monies in the account would be used to purchase a home.

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*"*Mortgage Insurance Risk Investor and Low Downpayment Loans*" *Thomas N. Herzog and Jan R. Fogel, Department of Housing and Urban Development (July 1987).*

GNMA NEEDS TO BE REDIRECTED

Insurance of home mortgages is primarily provided by stock insurance companies who are members of MICA and by the federally sponsored programs of FHA and the Veterans Administration (VA). A potential homebuyer or family desiring to refinance their home may be eligible for a loan insured by either a private company or by FHA (if a veteran, the borrower may be eligible for insurance by any of the three). The builder, realtor or lender may control the decision as to which insurance coverage is utilized. Generally, if the loan is to be ultimately financed through a Government National Mortgage Association (GNMA) security, either FHA or VA issues the guarantee. If the loan is not destined for GNMA, it is a "conventional" loan and if the loan-to-value ratio is in excess of 80 percent it usually will be insured by a mortgage insurer. The conventional loan may be financed by a thrift, bank, insurance company, Fannie Mae or Freddie Mac. FHA and VA insured loans can be financed by any of the above investors, but conventionally insured loans cannot be included in GNMA securities.

In recent years the secondary market has grown in importance, relative to the primary market, in its ability to influence who receives mortgage credit and the terms and condition of that credit. Lenders, originating loans must concentrate first and foremost on the needs and requirements of the investor. This is essential to preserve a profitable mortgage banking operation. If a mortgage banker does not maintain an outlet for each loan he originates, he changes the nature of his business and his ability to manage the risk inherent in his business operations. The many mortgage bankers who failed in 1987 did so because they did not properly manage their loan inventory.

Because GNMA is the primary outlet for FHA, it directs who FHA serves. The 1970's was an era dominated by the fixed rate mortgage and GNMA met its responsibilities by offering a federal guarantee on pools of government guaranteed home loans giving these contracts the properties of securities investments. By standardizing the complex legalities linked to individual home loans and making the home loan a nationwide investment, it led the way into a securitized era. Investors responded so favorably to these efforts that today the GNMA mortgage security is a major link between home borrowers and national and international capital markets. GNMA represents the lowest cost, most affordable home loan contracts today and represents a concept consistent with the origins of GNMA. Therefore, any plan to help lower-income people purchase homes must include GNMA as well as FHA.

FHA NEEDS TO BE REDIRECTED

From its inception the goal of FHA was to meet the home financing needs of those who could not afford to meet the requirements of the private sector, by assuming the risk of default and by encouraging lenders to make long term, level payment, self-amortizing mortgages. Under FHA's 203(b) program eligible properties could not exceed $16,000 in appraised value. A uniform annual premium of .5 percent of the outstanding principal balance was charged to all borrowers and a uniform loan interest rate was applicable. This uniformity ultimately benefited borrowers with

very low downpayments or weaker credit and the loan limits were expected to keep the program targeted to the lower end of the market.

Over time many changes have occurred in the regulations of the FHA program. For example, the maximum loan limits have been increased again and again, the administered interest rate was abandoned, a single premium paid at settlement was adopted, and direct endorsement underwriting was permitted. These and other changes have helped the lender effectively reach a larger market, but have been detrimental to preserving FHA's ultimate mission.

In 1987, MICA commissioned Temple, Barker and Sloane (TBS) to perform a study of the operations of FHA and private insurers over the five year period from 1982 to 1986. We were interested in factual data that would reveal the markets served by both FHA and our industry. The results of this study were surprising and alarming.

Exhibit I provides FHA originations by borrower income from 1982 to 1986 and Exhibit II provides FHA originations by loan amount for the same years. Together they show that FHA is no longer serving the market Congress intended it to, but has steadily increased its share in the upper end while its service to lower income people has declined. Note that in 1986 42 percent of the borrowers receiving FHA loans had incomes over $40,000. In 1986, $40,000 was approximately 140 percent of the U.S. median household income.

Exhibits III and IV show similar data for privately insured loans. What is most striking about this table when compared to the

FHA data is that FHA and private insurers have very similar records in serving the lower end of the market. This is particularly astounding when one notes that mortgage insurers have no loan limits and have no public policy mandate to serve a certain market segment. Note that Exhibits V and VI from the TBS Study, show that these national trends hold true in 12 economically diverse metropolitan statistical areas (MSAs).

We believe that the extensive TBS study of the FHA dispells many perceptions about the market served by FHA and the actual role that private and government insurers are playing. For example, it is generally believed that FHA's low downpayment helps primarily lower income borrowers. The facts show, however, that in 1986, of all FHA loans with less than a 10 percent downpayment, 42 percent went to borrowers with incomes over $40,000 while only four percent went to borrowers with incomes less than $20,000. In addition, a common perception is that FHA's overriding purpose is to help people buy their own home. In 1986, one third of FHA's volume was used to finance nonhomebuyers (refinancing or investors houses). The perception that revenues from high income FHA borrowers cross subsidizes low-income borrowers also was corrected by the facts. It is clear that a larger downpayment, not the borrowers income, is the predominant factor for determining where the subsidy originates. In fact, some lower income FHA borrowers subsidize many higher income borrowers.

This profile of the market served by FHA is understandable in light of the basic mortgage banking principals under which FHA is expected to provide mortgage credit. Almost 100 percent of FHA insured loans are sold to the GNMA. The profit level of loans sold in the secondary market correlate directly to loan size. Both origination and servicing fees are based on a percentage of the loan amount and when servicing portfolios are bought and sold, higher prices are paid for larger loans because they offer greater profits. Processing of higher income borrowers also is generally easier and there is less probability for payment disruption. As a consequence, a lender has incentives to originate FHA loans that serve the higher versus lower income borrowers.

The low income homebuyer, therefore, often finds that no FHA loans are available or the lender's pricing of the FHA loan is tiered. With "tiered pricing", lenders charge borrowers receiving these small loans a higher interest rate or more points than someone obtaining a larger loan. This acts to offset the lost profits on the low principled loan. This is a traditional business response but it interferes with the defined role for using the government resources of the FHA. If the government is not going to perform a proper social role then its presence in the market is not justified.

MICA RECOMMENDATIONS FOR REDIRECTING FHA AND GNMA

The mortgage insurance industry has considered many alternatives for directing FHA and GNMA in light of the system in which it functions and its public policy objectives. We also have looked at ways it can more appropriately serve higher income borrowers. We believe that adjustments must be made in the FHA/GNMA programs to increase the attractiveness of loans to targeted markets and to enable loans to nontargeted markets to operate on a market basis.

MICA, therefore, recommends that FHA/GNMA loans be divided into two categories - - targeted and nontargeted - - and that loans to nonhomebuyers (refinances and investors loans) be prohibited.

MICA would define targeted FHA/GNMA loans to mean loans to borrowers with incomes below a certain percentage of the median family income. Congress would set the percentage commensurate with prevailing public policy and would use median income of a county or MSA so that the system would be able to accommodate regional differences. The system also would recognize economically distressed areas, where both borrowers and the market need a more visible government presence to support the market. In such areas, the percentage of median family income could be raised slightly to include more people in the targeted category. Congress also would choose that higher limit. Targeted loans would have the following characteristics:

- These loans would retain all the current benefits of the FHA program. This would include 100 percent insurance coverage, a fixed premium for all loans, a less than five percent downpayment, the ability to finance closing costs, and the ability to assume the loan.

- Conventional loans that fall within the definition of targeted loan would be eligible for inclusion in GNMA securities if they had insurance coverage acceptable to GNMA. As discussed above, there is ample evidence to show that GNMA securities can leverage the effectiveness of the government's credit enhancement function. If private insurance coverage were used on primary risk of default in lieu of FHA it would reduce the actual liability and potential cost to the Treasury and it would provide more mortgage credit for low income borrowers. Since the GNMA program is taxable it is far more cost effective for the Treasury than programs such as mortgage revenue bonds. As a result the lender after evaluating borrower needs, would be completely free to choose which insurance program, private or FHA, that best met lender and borrower needs.

- GNMA guaranty fees for targeted loans would be eliminated allowing the lender an increase in servicing income of six basis points (i.e. 0.44 percent to 0.50 percent). Making these loans more profitable for the lender to originate would encourage them to make more funds available to lower-income people.

- The present loan limit of $101,250 for high cost areas is too high. It should be scaled down over time to be more consistent with the overall redirection of FHA and GNMA.

- The following concept would be implemented to control the guaranty authority of both FHA 203(b) and GNMA: The guaranty authorities of FHA 203(b) and GNMA would be a minimum of $X billion; however, the limit could be adjusted upward in a current fiscal year to an amount of two times the loan amounts produced in the targeted category in the preceding fiscal year, if such amount exceeded X.

Congress would provide a number for the guaranty authority, in keeping with overall housing policy goals. This formula for the total guaranty authority will provide an incentive to the users to increase the volume of targeted loans.

Nontargeted loans would be defined to include all loans provided to people whose income is above the amounts described in the targeted category. In addition, MICA believes that Congress should set an overall maximum income amount beyond which the individual is not eligible for an FHA insured loan. Loans to individuals in the nontargeted category would have to be provided on a market basis and would be more economically and actuarially sound to reduce FHA's contingent liability, described below. Targeted loans would have the following characteristics:

- The maximum coverage FHA could provide on nontargeted loans would be 25 percent. The balance would be coinsured by the lenders to insure sound underwriting.
- The loan amount could not exceed 95 percent of the property value.
- Closing cost would not be eligible for financing.
- Loans would be due-on-sale (i.e. could not be assumed).
- Lower debt-to-income ratios would be required for nontargeted loans than those required for targeted loans.

- The FHA underwriting or premium on nontargeted loans would be economically sound.
- The GNMA guarantee fee for nontargeted FHA loans would be increased to 0.12 percent to cover the increased surety exposure due to the residual risk retained by the lender.
- The present loan limit of $101,250 in high cost areas is too high. It should be scaled down over time to be more consistent with the overall redirection of FHA.

MICA also believes that FHA should only insure loans to purchase homes and only those type of loans should be permitted in GNMA securities. The FHA/GNMA programs were created to assist lower-income people purchase homes. Over a recent five year period, however, 20 percent of FHA loans went to nonhomebuyers -- refinances and investors. In 1986, this number jumped to 30 percent. MICA believes that one way to expand homeownership is to make FHA available only to those lower-income people who wish to purchase a home. FHA, therefore, should be prohibited from refinancing existing loans or providing loans to investors.

MICA strongly believes that if FHA becomes more effective in providing mortgage credit to those at the margin of homeownership, it would not only provide more credit to those buyers but it would act as a stabilizer for that low income market. Fluidity takes much of the risk out of a market and makes it more attractive for the private sector to be more active in it. In addition, if FHA is targeted to the lower income market, the private sector could regain some of the volume it has lost to FHA in the last two years. This would enable an insurer to better spread its risk and, therefore take on more risky loans at the lower end. As a result the overall availability of mortgage credit from both the private and public sector will increase, expanding the ability for more low income people to own their own home.

FHA AND THE BUDGET

The Subcommittee efforts to develop a new housing policy must not run afoul of progress the Congress is making in reducing the budget process. There are and will be budget constraints as we move toward the 1990's and all government programs must be examined in terms of their potential budgetary effects.

For a number of years federal guarantees on loans were considered to have no budget impact. In fact, some have argued that the business of guaranteeing credit actually makes money for the government and thus there is no reason to bring it into the budget process. The proponents favoring the expansion of FHA have made this argument and have told the Congress to dismiss any worry that FHA's Mutual Mortgage Insurance Fund (MMIF) could ever become a multi-billion dollar federal liability.

MICA believes it is important to alert this Subcommittee to the need to look at FHA performance in order to assure its long term viability. We have repeatedly told this Subcommittee that we believe it is in the long term interest of the private mortgage insurance industry to maintain a strong FHA that can work in partnership with the private sector. FHA has a role in high risk areas and in helping to stabilize markets in order to keep credit available especially to lower-income families with marginal options for private credit. The recent loss experience of the private insurance industry and a number of other warning signs suggest that FHA may experience a strain on its reserves in the next few years.

The FHA's MMIF has not had an underwriting profit since 1983 and in 1986 it experienced an underwriting loss of about $10 million. This jumped to well over a $400 million loss in 1987. An underwriting loss represents the difference between the earnings from premiums paid in and claim expenses paid out. The FHA's MMIF reserves are invested in Treasury securities which produced investment income to offset underwriting losses. As a result, the net MMIF earnings in 1986 were $462 million but this dropped in 1987 to $101 million. Note, however, that the MMIF experienced a $36 million operating loss for the last six months of fiscal year 1987. If this trend continues, a drain on the reserve fund could occur which would lead to direct government support.

It also appears to be true now that FHA's premium will not be adequate to deal with its risk expense. A study by the firm of Peat, Marwick, Main and Company, done for the Mortgage Bankers Association of America in 1987 showed that the FHA premium and MMIF surplus were adequate. An updated analysis by the mortgage insurance industry of that study using 1987 claim experience data, however, shows that the premium and surplus are probably no longer adequate to assure that a future drain on the reserve fund will not occur. Unless underwriting policy changes are imposed, the FHA premium should be raised significantly in order to maintain the long term viability of the MMIF. Two facts support this conclusion. First, the FHA claim rate projections done by Peat Marwick were at least 30 percent lower than projections using 1987 data, which was unavailable to Peat Marwick at the time of its study. Secondly, because of the changed nature of mortgage risk in the deregulated lending environment since the early 1980's, the 25 year period for averaging losses that Peat Marwick used is no longer meaningful for analyzing the adequacy of premiums. A five year average is believed by actuaries to be more realistic. This change in assumptions would dramatically increase the level of projected future losses. The claim rate curves for FHA loans originated since 1980 have significantly different peaks and slopes than presented in the traditional analysis that the Congress has depended upon. Moreover, if a serious economic recession were to occur the level of loss for FHA could become huge. This raises the very difficult question: will FHA become the FSLIC of the future?

A variety of factors have contributed to the recent condition of FHA including less stringent underwriting requirements, very high ratio loans and a uniform premium. MICA believes, therefore, that since these features of FHA represent a government subsidy in comparison to what is available from the private market, that such features should only be available to those who need government help. Scarce government resources should not be going to upper-income people who can afford a private sector alternative.

Thank you for this opportunity to discuss the Task Force Report. MICA and all its members hope to continue to work with their members of Congress to build stronger government programs to help low-income people purchase homes.

Senator **Cranston**. Thank you very, very much.

Our next and final witness is Leonard Shane, Chairman of the Legislative Committee, U.S. League of Savings Institutions. Leonard, I welcome you, another California constituent.

STATEMENT OF LEONARD SHANE, LEGISLATIVE CHAIRMAN, U.S. LEAGUE OF SAVINGS INSTITUTIONS

Mr. **Shane**. Thank you, Senator. Just a personal comment, if I may. I was thinking as I was sitting here that this is the fourth decade that you and I have been involved together in fighting for housing and home ownership and I think it's probably a very good sign.

Senator **Cranston**. Let's make this the one where we really get it.

Mr. **Shane**. I hope so. What I would like to do, Senator, is not review my written statement which has been provided. I want to urge that while the entire text of it may not be read by very many, that the first couple of pages may be of some significance in providing some perspective and I would really hope that that would happen.

I'd like to address myself primarily to some of the things that perhaps can be described as the difference between programs and systems. I want to deal with two very basic caveats at first. I want to be very sure that the limitations on what I am trying to say are clearly understood primarily by you two gentlemen who are sitting there.

I have no intention—and Senator Cranston knows me well enough to know that this would be true—I have no intention of throwing rain on anyone's parade. I really believe that the task force performed a significant and an important function. But I really want to make the point that its function and what it has done is just the beginning and the proportion, the perspective is what I want to talk about if I may.

The other is a far more perhaps subtle but very meaningful point to me, and I have testified before the Senate Banking Committee many times over the last decade and I've tried to make this point whenever possible. This country built its home ownership, its housing greatness, as a result of something called a housing coalition that existed for half a century. It was made up of all kinds of interests, many of them melded their interests together and resolved their conflicts.

But it was led by public policy officials. It was led by Members of the Senate and the House. It was led by people who were acting in the public interest, as differentiated from being the coalition forces among special interests.

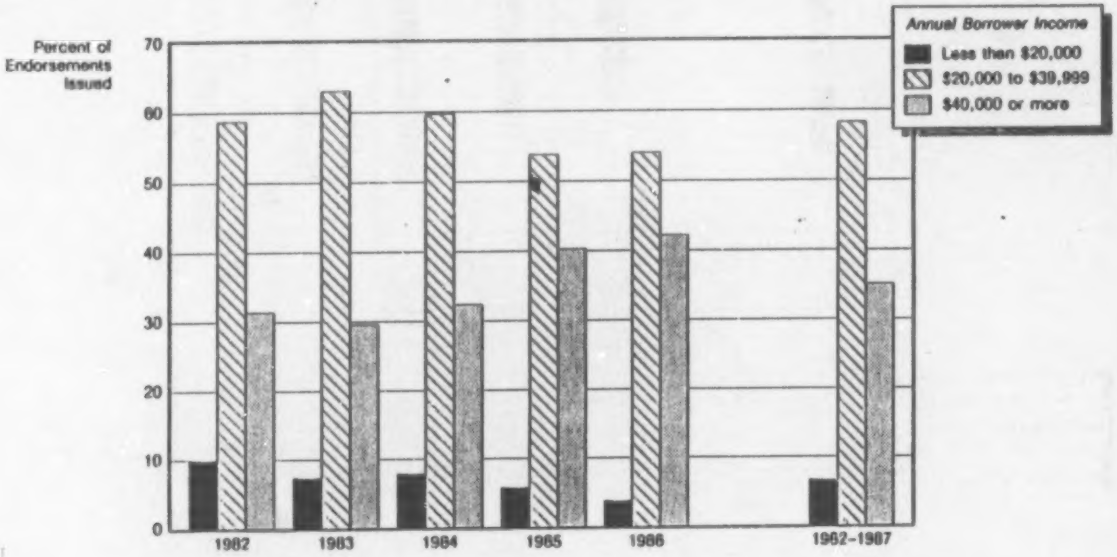
One of the important things accomplished by this task force was to bring together under one roof or one umbrella a great many special interests. And indeed, if you look at the programs—not the policies and systems because there are no policies and systems reached yet—but if you look at the magnificent programs that are being recommended in the task force report by my very dear friend and comrade in arms David Maxwell, by the way—Mr. Rouse I've not known as well, but David Maxwell and I have shared the plat-

EXHIBIT I

Distribution of Endorsements by Borrower Income

Federal Housing Administration

1982–86



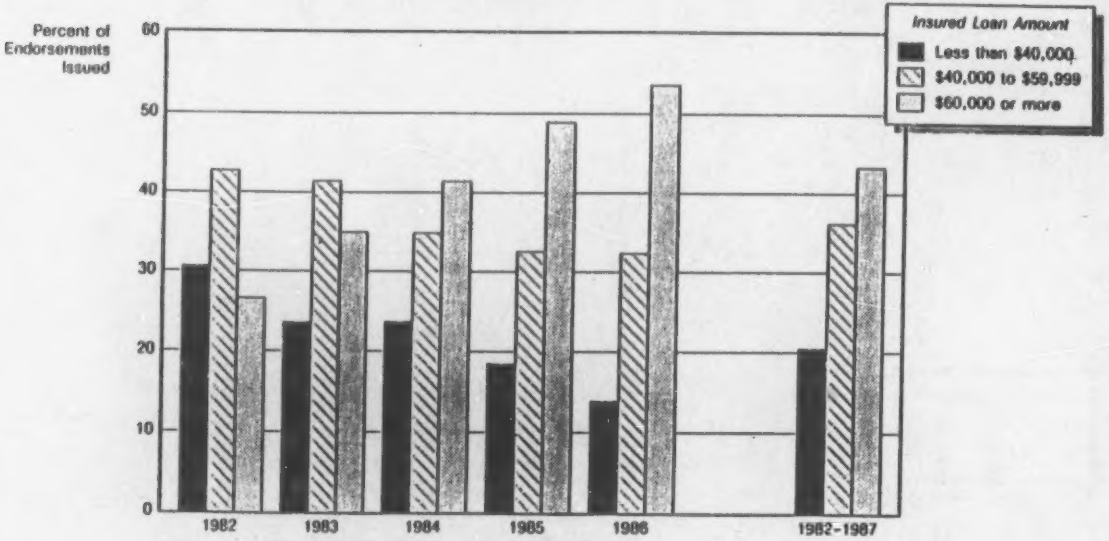
Prepared by Temple, Barker & Sloane, Inc.

EXHIBIT II

Distribution of Endorsements by Insured Loan Amount

Federal Housing Administration

1982-86



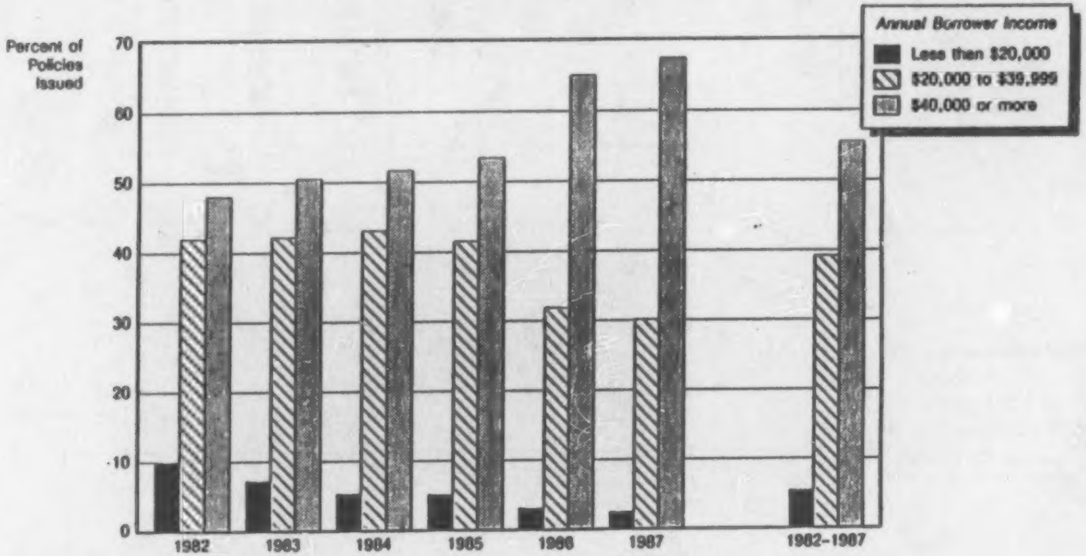
Prepared by Temple, Barker & Sloane, Inc.

EXHIBIT III

Distribution of Policies Issued by Borrower Income

Private Mortgage Insurance Industry

1982–87



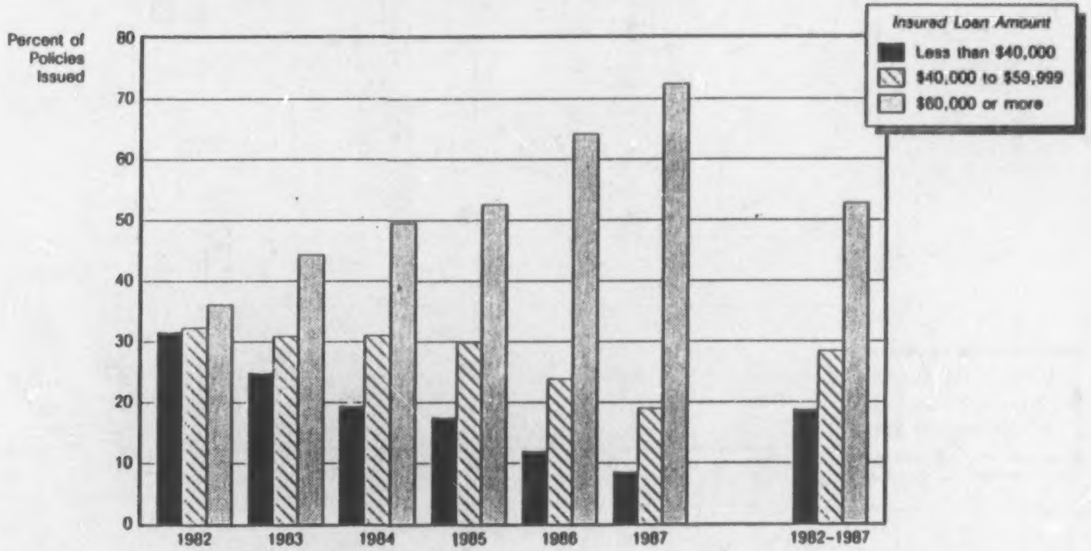
Prepared by Temple, Barker & Sloane, Inc.

EXHIBIT IV

Distribution of Policies Issued by Insured Loan Amount

Private Mortgage Insurance Industry

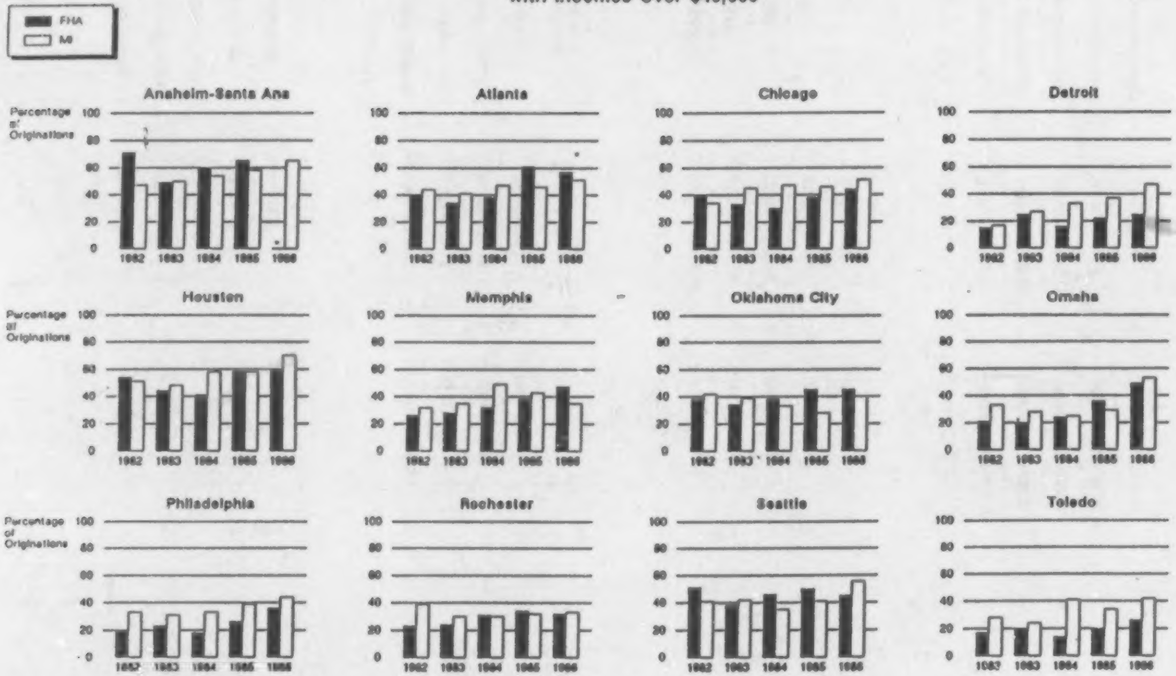
1982–87



Prepared by Temple, Barker & Sloane, Inc.

EXHIBIT V

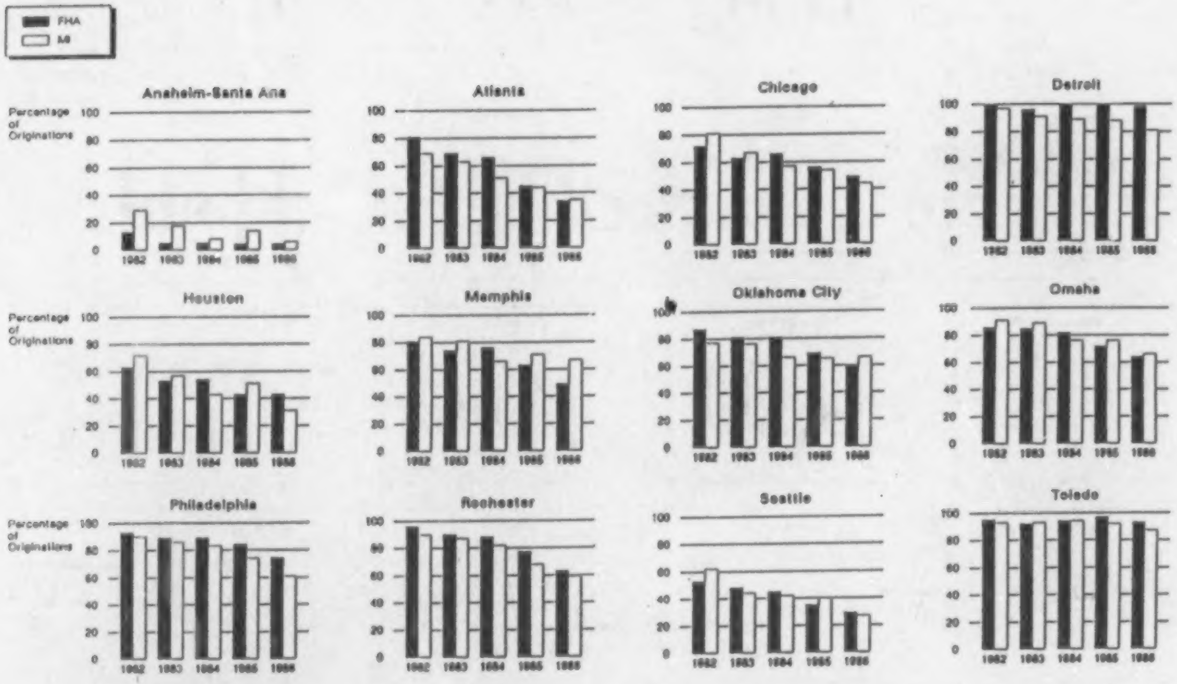
FHA and MI Originations to Borrowers with Incomes Over $40,000



*Insufficient data.
Note: MI data are restricted to loans within FHA limits.
Source: FHA and MICA.

EXHIBIT VI

FHA and MI Loans Under $60,000



Note: MI data are restricted to loans within FHA limits.
Source: FHA and MICA.

form and have shared the advocacy for many years of the public-private partnership. There are parts of the job that can not be done by private enterprise. That's where public housing assistance and subsidies come into play and, indeed, that is what the task force addresses as its start.

But I want to put it in perspective and in the couple of moments I have left I want to talk prospectively. We are talking about a $2 trillion endeavor when we're talking about housing and home ownership in this country. We are talking about the industry that I represent, the savings and loan industry, currently holding in portfolio two-thirds of a trillion dollars worth of residential finance. I'm only talking about residential.

The people who are sharing the platform with me here, many of them good friends and also comrades in arms, have interrelationships with each other and with us—in fact, most of them are our customers or our suppliers. The industry of which I am a very proud member—and I really am a proud member—has testified for a decade about the use of IRA's for downpayments. I have personally come before your committee, Senator, a half a dozen times. The time wasn't right and you are correct, maybe we are getting to the right time.

It is time to reestablish the national housing and home ownership debate. My view is that the task force report represents the start but only the start. In 1984, I shared something that you gentlemen have just done. When I was chairman of the U.S. League, I had the opportunity to appoint a task force on home ownership and its first report, which was the first definitive one of its kind, was made public a few years ago and has been used as a resource and much of what you have here is the low income subsidized end of that report and we're very proud of that.

But we don't want to believe that the elephant is comprised just of the trunk or just of one of the legs. It is a very large, multitrillion dollar elephant. When we talk about a $3 billion Federal program to kick off some of the subsidies and help, we have one savings and loan that does that much by itself in 3 months in terms of funding and financing loans.

My time is up. I wish Senator Sasser were here to ask the same question of me about savings and loans that he asked David Maxwell because I can answer that question in 2 minutes if it would be asked.

Thank you.

[The complete prepared statement of Mr. Shane follows:]

Statement of Leonard Shane
On behalf of the U.S. League of Savings Institutions
Before: The Senate Subcommittee on Housing & Urban Affairs;
The House Subcommittee on Housing & Community Development
Regarding the Report of the National Housing Task Force
April 12, 1988

Mr. Chairman:

My name is Leonard Shane. I am Chairman and Chief Executive Officer of Mercury Savings and Loan Association of Huntington Beach, California, and appear today as Legislative Chairman of the U.S. League of Savings Institutions, representing 3,200 savings and loan and savings bank members nationwide.

The U.S. League is pleased to have this opportunity to review with your distinguished panels the Report of the National Housing Task Force. The report is a useful departure point for a dialogue, long overdue in my personal view, on a coherent and sustainable housing policy for our nation.

From our reading, the Task Force places its greatest emphasis on dealing with the shelter needs of those on the lower rungs of the economic ladder. We concur fully in the view that all Americans should have "a decent place to live", as the caption declares on the cover of the document. Achieving this goal will require special socioeconomic considerations to deal with such challenges in terms of government assistance and incentives -- federal, state and local -- in addition to participation by all segments of our society. From shelter for the homeless to overcoming affordability barriers for young families seeking

their first ownership opportunity, the report provides an assemblage with many useful recommendations.

Important as the report is -- and I do not say this to diminish in any way its contributions -- in my view the framework for addressing the nation's housing policy needs to be broadened still further. In particular, the Task Force found (on page 81) that "there is no reason for change in the basic housing finance system". We are not as confident, perhaps, as are the authors of the report that there is no need for review and reassessment of the housing finance delivery mechanisms. I suspect that, on reflection, some members of this distinguished panel -- as participants on the Banking Committees of the House and Senate -- might agree.

To make the point more directly, many of us have been looking forward to this process for the very reason that the nation's housing finance system, more specifically the secondary market, should be thoroughly reviewed by the Congress as part of an overall review of national housing policy.

The financing arrangements for the broad economic sector of housing are many and varied and constantly evolving. There are federal agencies (FHA, VA, Farmers Home), secondary market facilities (Fannie Mae, Freddie Mac, Ginnie Mae), Wall Street firms, syndicators, commercial and mortgage bankers, private mortgage insurers, involved -- as well as the thrift institutions which our League represents. By directly or indirectly channeling the credit to home and apartment owners, or enhancing that process, these entities are "housing providers" just as builders, developers, and realtors contribute to housing in America.

The industry which the U.S. League represents has been in the past, is at the present, and expects to be in the future a major contributor to providing housing for our people -- and remain the predominant financing source in that process. The report mentions that "thrift institutions originated 40 percent of home mortgages" last year. Our importance goes beyond origination -- a function shared by others, such as mortgage bankers. We are also the predominant "ultimate investor" or "holder" of home mortgages in their whole loan or securitized forms. At the end of last year, we held in portfolio, both in direct mortgages and as mortgage-backed securities, over $750 billion -- three-quarters of a trillion dollars -- in residential loans. In 1987, after factoring out repayments and refinancings, net new lending -- net acquisitions of residential loans and mortgage-backed securities -- totaled $64 billion at FSLIC-insured savings institutions and another $19 billion at FDIC-insured savings banks. By contrast, net new residential lending last year at commercial banks was $37 billion and "non-traditional" sources (e.g., pension funds) was but $9 billion.

I offer these numbers for perspective. We frequently see in the news media and even in the Congressional Record that the thrift industry as a specialized mortgage lender is gone. The pat phrase is "They're all just banks now." Mr. Chairman and members of the subcommittee THAT JUST ISN'T SO! Thirty-six hundred thrifts added $83 billion dollars of mortgages to their holdings last year compared to only $37 billion by all 14,000

commercial banks. Does that sound like they are the same? Indeed not. Our place in this financial fabric is today what it has been for the past 50 or so years and will be, federal housing policy permitting, for another 50 years. We are the holders, the long haul guys, in this equation. We not only hold the largest share of whole loans, we also hold the largest share of mortgage backed securities of any in the game today. So if you are tempted to believe that Wall Street, the mortgage banker, and non-traditional sources can replace the thrifts, ask yourself who is going to buy and hold the securities backed by mortgage pools? The brokerage house? The pension fund? Don't count on it... remember, we are talking about three-quarters of a trillion dollars as holders. Even Fannie Mae's $90 billion portfolio is dwarfed by comparison.

Thrift institution holdings are also part of the "American Dream". Whereas other participants in the housing story make their contributions at various transactional phases -- as the house is being constructed, when the sale occurs, as the loan is pooled, when the loan package is guaranteed -- the thrift institution tends to be a partner with the family throughout most, if not all, of the years they live in their home.

To enable our institutions to provide this long-term credit resource, Congress set in place over a half-century ago an integrated system of funds acquisition, supervision and regulation, housing-oriented empowerments, and specialized liquidity backstops. It created the FSLIC and FDIC as deposit insurers, the system of Federal Home Loan Banks, the Federal

Home Loan Bank Board with its national chartering and supervisory responsibilities, a separate holding company act, and more recently in 1970, the FHLMC capitalized by the thrift industry through its FHLBanks. The national policy direction was refined with detailed laws and regulations establishing the purposes and guiding the performance of these various agencies from 1932 to the present. (The tax laws also play a role in encouraging thrift institution specialization in residential finance.) Just last year, in the Competitive Equality Banking Act, your Committees and the Congress enacted a 60% qualified thrift lender test in the National Housing Act.

Thus, we are talking about an industry committed by history, law, practice, and economic considerations to activities very central to our national housing policy. While I subscribe to proposals such as the Report's $3 billion Housing Opportunity Program to stimulate the delivery of low-income housing, I would submit that there are issues affecting the three-quarters of a trillion dollar investment in housing represented by our thrift industry which are not confronted in this study.

I appreciate that this may not be the moment or the assigned forum under Congressional jurisdictional boundaries to review and address all of the challenges which affect today the specialized housing financiers known as thrift institutions. Certainly, your full Committees grappled with the public confidence issues surrounding the situation at the FSLIC fund in the Competitive Equality Banking Act last year.

The final resolution of the recapitalization issue, a 30-year obligation on the FSLIC-insured portion of our industry to service almost $11 billion in bonds and the contributions to the funding process by our FHLBanks -- without a penny of taxpayer assistance -- most assuredly affects our operating environment and our ability to sustain our housing finance mission. Likewise, though the major thrust of the Proxmire Financial Modernization Act passed recently by the Senate was directed elsewhere, even that legislation could impact our ability to operate and attract capital (through Title V's enforcement powers request of the regulatory agencies) and fully serve the homeowner (through parameters on home equity lending -- though a floor Managers' Amendment improved an earlier version considerably). Fortunately, the Senate in its wisdom did not entertain a punitive and sweeping suggestion for disrupting existing real estate activities at savings institutions and their subsidiaries.

Consequently your efforts to frame a federal housing policy must involve our institutions and be cognizant of the rapidly changing environment in which we operate as federally-insured, deposit-taking, mortgage holding institutions.

U.S. LEAGUE HOMEOWNERSHIP STUDY

For the past ten years, on a biennial basis, the U.S. League has conducted a survey of home buyers in order to better understand the needs of our customers. On February 3rd of this year we released the results of the 1987 survey in a report which contains local market analyses and historic comparisons back to the first survey in 1977. The complete report has been made available to both of your Committees. I am confident that the League's survey results will support many, but not all, of the findings and recommendations of the Task Force.

The League's survey reveals a number of demographic changes over the past ten years which have important implications for our nation's housing policy. For example, the median age of home buyers has increased from 34 to 37 over the decade. If this trend continues, the median home buyer age will be 40 by 1990.

Reflecting life style changes of the baby boom generation, the survey found that a greater percentage of buyers are single or are couples without children than was the case ten years ago. In fact, in 1987 over half of all buyers were in these two categories.

A great deal of attention is paid in the League's survey to the first time buyer. The following table offers a comparison of the first time buyer to repeat buyers on several housing choice variables.

PURCHASE PROFILE	FIRST-TIME BUYERS	REPURCHASERS
Median purchase price	$81,000	$105,000
Condominiums	16.3%	11.9%
New homes	21.1%	24.7%
Homes 25 or more years old	38.2%	24.7%
Median size of home (sq.ft.)	1,360	1,733
Median total monthly housing expense	$748	$860
Mortgage payment	$540	$633
Real estate taxes	$ 84	$100
Utilities	$100	$100
Hazard insurance	$ 24	$ 27

Source: Research Dept., U.S. League of Savings Institutions.

This research effort has consistently shown that housing is an inherently local activity with dramatic variations from one locality to another across the country. It also demonstrates that the circumstances and needs of the first time buyer are quite different from the repeat buyer or the person refinancing the same home.

Our research suggests that in order for national housing programs to reach maximum efficiency, they must be very carefully targeted to clearly identifiable segments of the population and to their particular needs and circumstances.

SECURITIZATION OF THE MORTGAGE MARKET AND AGENCY ACTIVITY

As I indicated earlier, our strongest disappointment with the task force report is in the area of conventional mortgage finance. While we do not fault the task force for the time and attention paid to issues of housing for the poor, it does seem reasonable to expect that a 100 page report that claims to be a comprehensive housing policy statement might have devoted more than a page and a half to the mortgage finance system. There are many valid and currently discussed issues in this area which Congress should address as part of its housing policy.

Central to this area of discussion is the growth and role performed by federal secondary market agencies of the conventional (non-FHA/VA) mortgage market. Created by Congress to supplement and support the private mortgage sector, both Fannie Mae and Freddie Mac now dominate (some would say, dictate) conditions in the conforming market for conventional loans of $168,700 or less. This diminishes the distinction between the primary market and the secondary market.

Only a few short years ago Congress enacted the Secondary Market Enhancement Act with the hope of stimulating the growth of a private sector securitization alternatives. The results to date merit reexamination. Armed with a host of federal advantages, Fannie and Freddie have apparently crowded out much of the private sector in the underwriting and marketing of mortgage securities.

There are other secondary market subjects, too, which merit your attention. HUD, a Presidential Commission, and the General Accounting Office have looked at privatization of the agencies in recent years; the Congressional Budget Office is reportedly studying the market value of the federal guarantees of Freddie and Fannie. The HUD Secretary devised minimum denomination, activity volume and debt-to-equity restrictions when Fannie Mae issued a tax-advantaged mortgage security known as REMICs last year.

Even more basically, as intended by Congress, these two agencies were designed to serve a targeted segment of the home buying public-- the moderate income buyer. That purpose was to be maintained by the device of a mortgage purchase limit common to the two agencies. In 1981 Congress indexed the limit so that it would adjust each year based on the preceding October's FHLBB report of housing activity. If Congress does nothing else in a comprehensive housing finance policy review, we urge you to examine the performance of the secondary market agencies' mortgage purchase index for each of the years it has been in use. You will find that it has performed very erratically and has increased the mortgage limit far faster

than housing price increases would have suggested appropriate -- so that today $200,000 properties are sold with loans receiving this indirect federal boost. The Administration has pointed out that there is no allowance in the index for regional differences in housing costs, and that, too, is deserving of attention.

These annual jumps in the limits beyond the pace of actual home prices have resulted in a steady increase in the percentage of the total housing market dominated by the two government backed agencies and their pricing for purchases. The result has been that at the present time only 10% of the total U.S. residential market is beyond the reach of the government. Is it any wonder that there is almost no totally private securitization alternative with 90% of the mortgage market operating under federal agency terms?

One policy judgment which the Congress must make is what portion of the mainstream mortgage market is appropriately served by government sponsored and funded programs through the federally-related secondary market agencies and what portion is to be served by the private sector.

THE FHA MORTGAGE LIMITS

As we have said elsewhere, the U.S. League will continue to support properly targeted federal programs which assist people to become home owners. Properly targeted means, very simply, that those who receive the assistance must be people who could not become home owners without the assistance. There is nothing very original about this standard. The federal government uses it in many other areas of social policy. Guaranteed student loans are not available to every student but rather only to those students from families with incomes below a certain, Congressionally-determined level. Nutritional assistance through food stamps is similarly pegged to an income test. Rental housing assistance is conditioned on a means test. Why shouldn't federal mortgage subsidies be similarly targeted?

Some mortgage subsidy programs (the tax-exempt mortgage revenue bonds, for example) have been targeted to first time buyers as well as by income criteria. In the case of FHA the targeting has been less precise. The targeting objective in this program has been addressed by a maximum mortgage ceiling. Partly to limit the exposure of the federal government and partly to direct the assistance to deserving homebuyers, the mortgage ceiling has been a feature of the FHA program since its inception in the 1930's.

For the past few years the Congress has permitted the maximum loan amount to be adjusted (by a statutory formula) for local areas in which housing costs far exceed the national average. But even this adjustment has an upper limit which was just increased by the Congress to $101,250.

The task force report calls for a further broadening of the availability of federally subsidized mortgages under the guise of helping the first time home buyer. We strongly disagree with the report's recommendation in this area. As we have stated elsewhere, we do share the concern of the task force over the barriers to entry to home ownership. It is highly unlikely, however, that raising the FHA limits would directly address that issue.

First of all, we must point out that the task force report makes the all too common mistake of mixing loan amount and home price figures. FHA loans are not presently limited to first time home buyers. Many FHA loans are originated every year by people who are repurchasers or who are refinancing. In either case there may well be substantial down payments involved from equity built up in the current home.

The task force report suggests that in localities where the median home sale price is higher than the FHA limit, the FHA program is inoperative or unavailable. That is simply not the case. First of all, median means the middle range of home sale prices. To say that the median sales price in XX was $150,000 means that there were an equal number of homes sold for prices below that amount as above it. The only way to determine the extent to which the FHA loan program is serving any local market is to look at the range of home prices and the amounts of new mortgage loans closed.

Raising the FHA mortgage limit by itself will not benefit the first time home buyer. It will allow home buyers of higher incomes to enjoy the benefits of a federally subsidized loan than is now the case. We submit that this is hardly a sound policy.

The FHA loan program is a mortgage loan insurance program. It insures the holder of the loan against loss from a default by the borrower. It was, and we hope still is, intended to be used to qualify families to become homeowners who would not qualify for a conventional mortgage. The U.S. League continues

Senator **Cranston**. Thank you all very, very much. Thank you for adhering to the time limits.

I'd like to ask you, Mr. Simpson, do you have any details on those foreclosures that you spoke about? What percentage of those were FHA financed homes? Do you know?

Mr. **Simpson**. I don't have them with me today, Senator, but I would be happy to supply those.

Senator **Cranston**. Would you supply them for the record?

Mr. **Simpson**. Yes, sir.

[The information follows:]

Mortgage
Insurance
Companies
of America

April 27, 1988

The Honorable Alan Cranston
United States Senate
112 Hart Senate Office Building
Washington, DC 20510

Dear Senator Cranston:

You asked me to supply, for the record of the hearing on the National Housing Task Force Recommendations, foreclosure data to support my statement that increased default rates of borrowers has caused a decline in the homeownership rate. The data is available from the National Delinquency Survey published by the Mortgage Bankers Association of America (MBA).

The following two tables come from survey data and present the rates of foreclosures at year end for conventional loans and for all loans as reported in the Survey. The table for conventional loans shows a rate of foreclosure that has quadrupled during the period from 1980 to 1987. The table for "all loans" for this period includes the rates for FHA and VA loans and reflects the higher levels of loss generated by the government programs.

Percent of Conventional Loans In Foreclosure at Year End

Year	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*
Rate of Foreclosure at Year End	*.17*	*.24*	*.39*	*.46*	*.47*	*.61*	*.69*	*.67*

Percent of All Loans Category in Foreclosure

Year	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*
Rate of Foreclosure at Year End	*.38*	*.44*	*.67*	*.67*	*.73*	*.81*	*.98*	*1.06*

Since MBA estimates that the loans in their survey represent about one-third of all residential loans, and assuming that the other two-thirds of the loans in the entire market perform as well as the loans in the conventional category in the MBA survey, it is possible to combine the two MBA foreclosure rates from the tables above to calculate average rates of loans in foreclosure

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that would be reasonable estimates for the entire market. This is set forth in the left column below. The excess rate above the 1980 foreclosure rate is shown in the right hand column.

	National Average Rate of Loans in Foreclosure	*Excess over 1980 rate*
1980	*.24*	*.—*
1981	*.30*	*.06*
1982	*.48*	*.24*
1983	*.52*	*.28*
1984	*.55*	*.31*
1985	*.67*	*.43*
1986	*.78*	*.54*
	TOTAL	*1.86%*

The total excess foreclosure rate since 1980 of 1.86 percent of all loans is greater than the 1.8 percent decline in the homeownership rate that the National Housing Task Force reported. This supports my testimony. In fact, this 1.86 percent estimate probably understates the actual level of households that were likely to have undergone the loss of their home. This is because on average it takes six months to complete a foreclosure. Thus, a more realistic estimate may be that as much as twice the total excess foreclosure calculated in the table actually occurred since 1980. This suggests that an estimate closer to 3.72 percent of all loans may be more accurate. While it should be noted that homes resold after foreclosure would reduce this number, the inventories of such unsold homes has been high especially in the last two years. The table presenting the national average rate indicates that the excess foreclosures in 1985 and 1986 alone, following the above methodology, was as high as 1.94 percent of all households.

It is possible to use the MBA Survey to estimate the number of vacant homes there are today. The 1987 Survey report contained over ten million loans. Thus, there would be approximately 30 million loans in the total market. Using the 1987 rates (i.e. .67 and 1.06 respectively) and statistically weighting to reflect the entire market, an estimate of 0.80 percent would be calculated. Thus, 240,000 homes (30 million x 0.80 foreclosure rate) are likely to be in foreclosure at this time.

The MBA Delinquency Survey contains a breakdown of conventional, VA and FHA loans. However, because the loans included in the Survey only represent about a third of all residential loans, in order to answer your question about the proportion of all foreclosures that involve FHA loans it could require more data than the Survey has available. The Survey is fairly consistent in the difference between delinquency rates of the various categories of loans and does show that FHA loans proportionately generate a substantially higher number of foreclosures.

An analysis as to the segment of the market served by FHA generating foreclosures would provide the Subcommittee with some important policy questions. It would be informative to see how many foreclosures are coming from a socially targeted versus nontargeted market such as borrowers with incomes at or below 115 percent of area median income versus borrowers with incomes above that level. MBA contends that the higher income borrower cross subsidizes the lower income borrower but MICA believes that for a large proportion of the higher income borrowers this is not the case. Expanding FHA *by permitting more liberal downpayments, for example, may actually weaken FHA soundness and the Subcommittee should examine this question.*

Thank you again for the opportunity to allow MICA to provide information for this hearing we will be happy to assist further if possible.

Sincerely,

William A. Simpson
President

Senator **Cranston**. Who winds up holding those homes if they're taken off the home ownership list? Are they just in an inventory?

HOME FORECLOSURES

Mr. **Simpson**. Well, it's in our business called REO, real estate owned. In the case of the FHA, it's owned by the FHA until they can later dispose of it. In conventional lending it's owned by the ultimate investor of a loan, the thrift or Fannie Mae or Freddie Mac or whoever actually owned that loan. In uninsured markets there's no insurance carrier involved so it would be owned by that same mortgage investor. Institutional lenders become the owners of the REO.

If we look at distressed areas in this country today in the oil patch, you can find some markets in Texas and Oklahoma as much as 20 to 25 percent of the homes in multiple listing are owned REO houses by the institutional lenders.

Senator **Cranston**. How would you redirect FHA and Ginnie Mae to lower income people?

Mr. **Simpson**. We have a complete set of recommendations in our written testimony but the highlight of it is simple. Congress would use a guideline of "x" percent of the median income in each of the SMSA's in the country, which Congress would determine is a fair way to distribute the government benefits of the FHA and GNMA programs. If you have a median income of $50,000 in New York and the congressionally determined guideline is 115 percent (which it happens to be what Congress determined for the mortgage revenue bond legislation), then that would provide $57,500 or $60,000 income limits for those families to receive the full use of the FHA programs. More than half the people would be eligible. Determining eligibility by income would be a simple thing.

Senator **D'Amato**. Would you raise the FHA limit?

Mr. **Simpson**. In our view, if you establish income limits first, then we would be less concerned with the loan limit.

Senator **D'Amato**. But you wouldn't come in then and testify, as some of our colleagues regularly beat us about the brains by saying.

> If you permit 115 percent of median income you're now permitting an income of up to $50,000 let's say in New York and therefore there's something terrible about that because the people who I represent in my area only earn $22,000.

You follow what's going on and you've testified enough so you know exactly what I'm talking about. So what would you testify to them?

Mr. **Shane**. Senator, we got into this dialogue several years ago in several arenas with the revenue bonds and so forth and it is a very large and a very complex discussion which I don't think you have time for here today. The one thing we have to establish very early is what's your objective. If your objective is to help low and even medium income families, then you set goals that deal with that. But when you get to median, not to be confused with medium, if you start financing up to median, you're giving half of the people in the marketplace a subsidized situation. I don't think that's your goal. I think you've got a semantic problem here, as you have in many of these issues.

Senator **D'AMATO**. Maybe it is my goal.

Mr. **SHANE**. In that case, you should state it.

Senator **D'AMATO**. Maybe the goal should be broader than just low and medium, but it should be low and working middle class today.

Mr. **SHANE**. That's fine.

Senator **D'AMATO**. Well, let me finish—low and middle class, many of whom can not find a housing opportunity as a result of the restrictions that have been placed on them. They can't get that FHA opportunity. Now I'm suggesting there are plenty of areas in this country—my colleagues may not be aware of it, where that $45,000 or $50,000 income is not available as a result of the requirement that the institutions want 20 percent downpayment in addition. Without FHA being able to help them, you're precluding construction, housing opportunities, and in the final analysis, the problem of the lowest income family who can't get an affordable apartment, and the constriction down by those working families in those rental units which continues.

So I think it is broader than just low and moderate. I think, yes, we're concerned with low and moderate and middle income families as well.

Mr. **SHANE**. Senator, I would just like to say that if you wind up——

Senator **D'AMATO**. Is it your philosophy that FHA shouldn't help middle income families?

Mr. **SHANE**. No. If what you just said, Senator, becomes our policy, which I think there's no reason why it shouldn't, we should state it. That is contrary to current policy. That's all I'm saying to you. It requires a reversal and change.

Senator **D'AMATO**. I have impinged upon my colleague.

Senator **CRANSTON**. Go ahead.

Senator **D'AMATO**. I've been working on this and this is going to be probably the focus and area of a great deal of debate within ourselves as to just what the function of FHA should be as it relates to the present circumstances today and funding. I'd be interested in hearing your opinions on that.

Senator **CRANSTON**. Sure. If anybody wants to respond to that, please do.

Mr. **TEUTSCH**. Well, Senator, it's interesting to me that we have this debate coming from down at that end of the table and that 87 percent of the FHA volume is originated by mortgage bankers.

The question really is that the broader the scale of offering the FHA product, the better and more actuarially sound your MMIF, your mortgage mutual insurance fund, is going to be. Therefore, you can offer it to the lower income people.

Right now, as Bill was just pointing out, there's a concern about the foreclosure situation. The foreclosure rate of FHA loans is below the national average everywhere, except for Denver and Fort Worth right at the present time. And MBA will provide you all the backup statistics on that.

So I don't see that as being a particularly valid argument.

Senator **D'AMATO**. I think you make a point that is tremendously cogent as it relates to reducing the loss ratio and spreading that risk by including in people of higher incomes and thereby, yes, taking a risk as it relates to that first-time home buyer with lower economics than the middle income. And isn't that the same thing we did to the returning GI after World War II?

Whoever heard of getting a home with $250 down? If we didn't have that program, my dad and mom bought their first home when Pop came home in 1945 from the Army in December, it would not have been. It just would not have been. They didn't have the financial wherewithal. And that house, which is in this task force report in Levittown, that whole Levittown area was built with the first homes costing $5,000 and the second $7,500 and I'll tell you, that $5,000 was totally out of the reach of those fellows. They got in there with $100 and $200 down.

So I guess if we had the same attitude then, no one would have said up until that point that they were creditworthy, but we got the GI program, the GI insurance that made that mortgage possible. I think it's about time we recognized in this Nation we're at that same point.

I have a son-in-law and a daughter and two grandchildren living in a one bedroom apartment and they've got two babies there and they're not living there in that one bedroom apartment because it's a beautiful, wonderful place. But because to try to attempt to get enough to afford a home and a downpayment is rough. He's making a fairly good income, but it's still rough. So I hate to think about those in his situation and those below.

And I think the FHA has an opportunity—we really do have an opportunity and we should have a debate on what the policy is, whether to broaden it and to open it.

Mr. Teutsch, you furnished me with some good information for ammunition.

Mr. TEUTSCH. There's one other point, too. We're still offering credit to qualified home owners in Colorado, Oklahoma, Texas, Louisiana, and Alaska, which are those economically depressed States. So another thing is to offer, not remove from your lending policy, in economic and depressed States just because you are having a bad experience—to qualified borrowers because there's still an economy there. We're still offering FHA and VA loans in those areas.

Senator D'AMATO. And the people still have to be qualified. There still has to be reasonable income to sustain that mortgage.

Mr. TEUTSCH. Appropriate underwriting is key, of course.

Mr. SHANE. Senator, I think that's a well taken point, but I think—again getting back to the perspective question, well-qualified buyers in those States are also getting conventional loans if they are creditworthy, and if one takes a look at the statistics you will find a much higher percentage and a much higher dollar total in conventional loans than FHA, as it should be at this point because of the national policy on FHA support.

Senator CRANSTON. It seems to me, Al, that while we want a reemphasis by FHA and Ginnie Mae upon lower income housing, that doesn't need to be at the sacrifice of continuing to do what we can for others of the sort that you've been expressing concerns about. If FHA makes a profit, the more they do in all these realms and the more housing that can be provided.

to support this sound public policy objective. Rather than moving farther and further away from than purpose as the task force suggests, we would urge the Congress to reassert that objective and take steps to insure that the program is used accordingly. Specifically, we urge the Congress to examine the report recently released by the private mortgage insurance industry on the overlap between their private sector efforts and that of the FHA. We hope that Congress will take whatever steps are necessary to make the FHA loan program work more effectively for those who need it and who can't become home owners without it.

COMMUNITY DEVELOPMENT BANKS

There are many ideas put forward by the report which are not developed sufficiently so that we can take a position for or against at this time -- but which are, nevertheless, thought provoking and worthy of some further exploration. The suggestion of federal incentives for the creation of "community development banks" falls into this category.

It is not at all clear what kind of charter such an institution would have, what form of deposits it would be entitled to hold, whether it would be taxed, regulated, etc like other depositories. Nor is it clear what kind, if any, of special advantages might be given this new entity which would disrupt existing intermediaries which sustain the broader housing market. With the nonbank bank episode fresh in our minds, we are skeptical of inventing still another limited service financial institution.

Hopefully there is more here than just one more competitor with the unfair advantage of federal tax exemption such as the credit unions already enjoy.

BENEVOLENT LENDING

With the same purpose in mind as with the community development banks, the task force recommends a federal backstop to encourage special deposit/loan relationships within existing depository institutions. There has been very limited experience with the kind of earmarked deposit-loan program suggested by the Task Force. While we are not at this time in a position to support the recommendation as stated, we do believe that this is a worthwhile subject for further study and we will encourage our institutions to explore this kind of activity.

PRESERVING THE HOME MORTGAGE INTEREST DEDUCTION

The task force report is eloquent in its advocacy of home ownership as a national priority. Obviously, being the nation's primary source of mortgage credit, we concur in that priority. We were disappointed, however, that the task force did not include among its recommendations a clear statement of support for continuing the single most effective federal homeownership program in existence--the mortgage interest deduction. This keystone of national housing policy can no longer be taken for granted. Congress is now and will continue to be pressed from different quarters to reduce or eliminate this deduction. We had hoped that the task force would have acknowledged this debate and come down clearly on the side of continued federal encouragement of home ownership.

The strong support of the members of the United States League of Savings Institutions for this essential home ownership incentive is well known. The battle over the deduction of mortgage interest will be waged, at least openly, in other Congressional arenas, namely the tax writing committees. The same is true of other issues which were raised by the task force report such as the expiring authority of private purpose mortgage bonds and mortgage credit certificates. This committee is well aware of the fact that tax policy has a very great impact on all housing issues whether rental or ownership oriented.

Those committees also have jurisdiction over other tax questions of current interest to us including: the workability of the low income housing and rehabilitation credits and their interaction with the passive loss rules; the possible relaxation of passive loss restrictions to clear out the inventory of housing properties accumulated on the books of depositories and FNMA due to regional economic problems; the continuation of tax provisions essential to FSLIC's task of conserving its available resources; and encouragement of tax code changes to assist in accumulating a downpayment for the first-time home purchase.

We hope that this committee will find an appropriate and effective method of communicating to the tax writing panels a

strong statement of support for the mortgage interest deduction along with other pro-housing tax code provisions and recommendations.

CONCLUSION

Mr. Chairman I want to express the appreciation of the U.S. League to you and to Senator D'Amato for the leadership you both are providing in this effort to make the goal of "A Decent Place To Live" a reality for all Americans. While we do and will have many specific areas of disagreement as well as agreement in this process, we do share that common goal and, more importantly, we share the very high priority placed on the achievement of that goal.

Thank you for this opportunity to offer our observations on the work of the National Housing Task Force. I would be happy to answer any questions you may have.

Mr. Simpson. I agree with that, but I'd like to look at the nits and gnats here. For that family in New York that will be so greatly helped by these FHA expansion rules, I would submit to you that economically giving that same person the right to use their IRA or even better yet an IRA deduction would go way beyond what you think the value is created in these FHA expansion ideas. Freddie Mac and Fannie Mae, the savings and loans, the mortgage insurers, stand ready and willing to make up to 95 percent loans on those properties in New York.

What you want here in this FHA expansion rule boils down to maybe one less point of downpayment.

Senator D'Amato. I like the idea, as you indicate, Mr. Simpson, the IRA provision. This Senator is not fighting that. I want to be a little bit realistic, though. We have two other committees, the Finance Committee in the Senate and the Ways and Means over in the House, and all they give you is loss of revenue.

Mr. Shane. There isn't any.

Senator D'Amato. I know that, but they never want to figure reflow back in in terms of what Senator Cranston brought up before. The Joint Tax Committee will never give you how many jobs are created, how many more taxes are going to be paid. They just won't do that.

Mr. Shane. That's because they're intimidated by Treasury.

Senator D'Amato. That's where we're going to need you to help us carry the ball.

Mr. Stuard. Senator, I think there's a point to be made, too, in the difference between the first-time home buyer and the move-up home buyer. Really we're talking about FHA for the first-time home buyer. As you know, Senator D'Amato, in many areas of this country, the cost of housing is so expensive that the median price for a home in that area is out of reach for the first-time home buyer. Certainly, the move-up buyers have the opportunity of taking their equity, rolling it over and going into conventional lending.

The second part of that is, I don't think we ought to be too concerned about problems that FHA may be having and, to some degree, the problems that the private mortgage insurance people are having right now. The problems that we will see in FHA and in private mortgage insurance are problems that originated back in the early 1980's. They are not originated through practices being carried out right now. I recognize we had probably the most extraordinary recession we had in housing during that period of time and there's bound to be some fallout, but I don't think there's anything wrong with the soundness of the programs we're practicing today.

Mr. Weigand. In addition, Senator D'Amato, your point about the IRA's—and David Maxwell made it too—is that the IRA's are invested in stocks and futures and everything else, and what better place to put your IRA than in a home?

Senator D'Amato. That's a good point.

Senator Cranston. Leonard, with the caveat that your response must be brief because we're running out of time, I put to you the Sasser question on S&L's.

Mr. **Shane**. Well, first of all, I think that there seems to be, at least on the part of some, a failure to recognize the magnitude of the continuing participation. When you adopted last year the so-called thriftiness test, the 60-percent test, it was with the support of our industry. When we talk about those who have deviated away from residential lending and so forth, we're talking about those who are not in the mainstream, they are not basically our industry. When we're talking about getting hit in the oil patch, we're talking about problems that were not just savings and loans. We're talking about some of our friends in California, Senator, who also got involved in Texas. We're talking about those who took advantage of authorities that the industry mainstream did not support.

We are housing people. We continue to be the biggest housing lenders in the country, the portfolio lenders. We hold the loans. We're not the transitory relationships that frequently, while very valuable, are different.

So that when we talk about the reemphasis—you have found and you will continue to find that we consider ourselves the prime supporters, advocates, and financiers for home ownership. But what did happen in the late 1970's and early 1980's is that something that wasn't broken was broke, deliberately attacked and broken, and then was fixed in such a way as to ignore the basic problem. David Maxwell touched the problem extremely well. We're never going to put regulation Q back, but once you started—and I'm going to use a term that's a no-no in Washington but I'll use it anyway—for over 50 years we had deliberate credit allocation to support housing and home ownership. We had it. We didn't call it that, but we had it. We have destroyed it. If you want to go, as I want to go back—not back in time and deeds but back to a concept of American home ownership, we are going to have to put the American home owner at all levels into a position where he does not have to compete with junk bonds and others who will pay any interest rate to get some bucks in the marketplace. Once you have put us—us is the home owners—into a position to compete favorably in the credit market, not compete with anybody who has no social interest, once you recognize that housing is a social as well as an economic issue, again we were there before—then we are well on our way.

Now you've started with the low income group in this task force. I am suggesting that if you can, Senators, start expanding now to the whole spectrum. Instead of having push-down we should have some trickle down. Instead of having isolated situations we should have national programs. Instead of having competition among those that were at the margin, we should recognize where the main game is. Our industry does not consider and never has considered it a game.

Two-thirds of a trillion dollars currently in portfolio—we are the biggest buyers of what David Maxwell sells. We create them. We sell them to them and then we buy them back. That's who we are. We are depository institutions. Use us and don't believe some of the junk you're told about our not being in the business. Just look at the statistics. It's true.

One final comment, Senator, if I may. One of the problems we've had over recent years is that all of us have gotten bad advice. In the early 1980's, it was the common wisdom to say, all financial institutions are going to be the same; they're going to be homogenized. It was nonsense then. It's nonsense now.

In those days it was the common wisdom to say, you can have plenty of money when it gets tough enough. Or it was common wisdom to say, there's too much money in housing. I testified before your committee in 1982 on something that was terrible and I wish it hadn't happened. I said we'll have a real study on this the day we discover there are some people that are homeless. Go back to the record. You'll find that's true.

Senators, it's a matter of perspective. I think you've got a starting point. What I'm urging you to do now is not to think that the homeless and the disadvantaged are the whole housing problem. It is just the start. David Maxwell could take you down the study path with the task force that will really get into a housing debate which we need in this country.

Senator CRANSTON. Well, I want to assure you that we are not focusing just on the homeless and the disadvantaged. We know that that is the most emotional and distressing aspect of all this, but there's a lot else that needs attention and we are planning to come up with a rounded program and the task force gives us some guidance in that direction, a great deal of guidance, that will meet the general home needs of our country. Al, do you have anything further?

Senator D'AMATO. Yes, Mr. Chairman. I don't mean to be repetitive, but I think we all owe you a great deal of thanks and appreciation that you and your undertaking has brought us to this point. It has assembled the work force and has brought forth one of the most enlightening panels. In a relatively short period of time, I think we've touched on—Leonard Shane and Mr. Simpson and Mr. Weigand and Mr. Stuard and Mr. Teutsch have really touched on the essence of where we should be undertaking our efforts and looking at. What about our national housing policy and goals? Leonard Shane said a mouthful in that last minute or two.

We deliberately had for so many years a policy in tax code, in philosophy, in law and in practice that encouraged home ownership. I think quite accidentally but with a lust for revenue to balance the needs to bring down the rates we have inadvertently destroyed much of that, much of those incentives. No one is looking to make rich people richer by way of the tax code, but how can we encourage Americans—low income, moderate income, middle income—to have part of that American dream? That's to own something. That's to grow with this country, as we've seen housing values grow. What an incredible thing that has been for the tens and tens of millions of humble Americans who scraped together their original downpayments and they have grown with it. Their housing value, that which they've owned. We forget this. That house in Levittown that we see in this page where someone paid $47,000 and 10 or 12 or 14 years later it's worth a $¼ million, that's part of that dream that we give to people of low and moderate income, that opportunity to see that they have an accumulation of something. And hasn't that paid great dividends to our country when our seniors are not destitute when we look back to the days of the Great Depression when so many not only did they lack

Social Security and the resources to even meet daily needs, they had no nest egg to speak of. That home becomes that.

So I would hope, Mr. Chairman, that we would find ways to open up the dialog. It gets so tough around here. I had four committee meetings scheduled at the same time as these hearings. Obviously I didn't attend them. And I think that happens to so many of our colleagues that we should give them the opportunity and I would hope we could bring back this panel to share with other members not only of this entire committee but Members of the Senate their expertise and their knowledge and their understanding of what the problem is and the manner by which we can foster the kinds of programs that could help address those problems. That's the great opportunity that you, Alan Cranston, have given the Members of the Congress, and I thank you for it.

Senator CRANSTON. Thank you, Al. That's a very fine statement and you did just manage to say one thing I disagree with. That's the first time you've done that today. When you say nobody is looking to use the tax code to make rich people richer, there are such people.

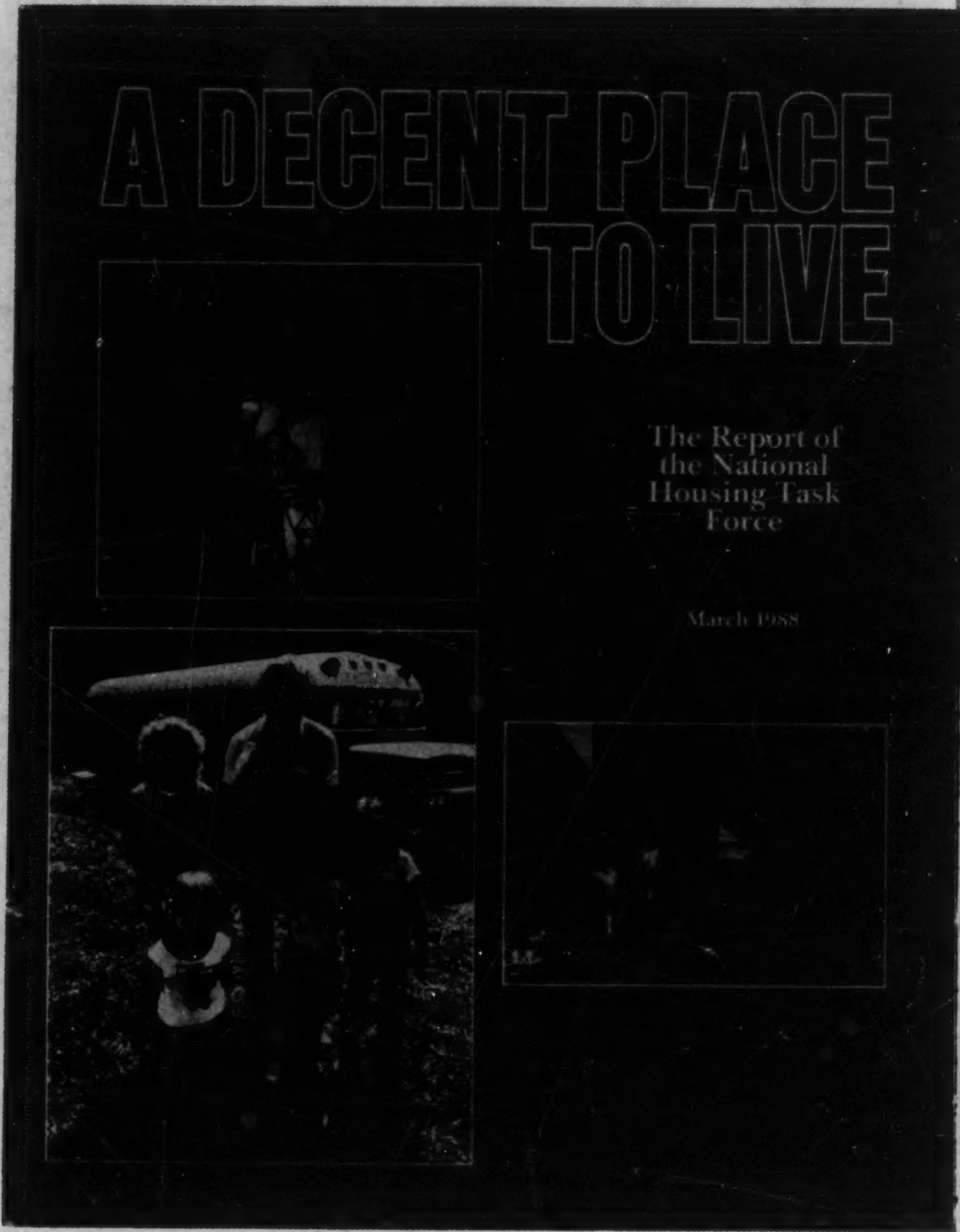
Senator D'AMATO. Well, we don't share in that. That's certainly not our concern.

Senator CRANSTON. You just demonstrated you're more of an idealist than I think I am. [Laughter.]

We have had a very fine morning together. I thank each of you on the panel that's just been with us now. You've made some very fine contributions to the thinking this committee has to do and the country has to do about housing. I think this has been an exceptional session today. The lack of formality and the give and take has enabled us to transmit our views back and forth and explore ideas in a way that seldom happens in a committee hearing. I'm grateful to you, Al, for helping make it that way, to all of you who participated for making it that way, and I believe we are on our way to some very significant accomplishments and, with your help, we will achieve them. Thank you very much.

We stand adjourned.

[Whereupon, at 12:45 p.m., the hearing was adjourned.]



A DECENT PLACE TO LIVE

The Report of the National Housing Task Force

March 1988

The National Housing Task Force

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VICE CHAIRMAN

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Members of the Task Force participated as individuals, not as representatives of their respective organizations or positions.

A DECENT PLACE TO LIVE

The Report of the National Housing Task Force

■

March 1988

The Task Force and Its Purpose

The National Housing Task Force was established in September 1987, as part of a Congressional effort to reexamine America's housing policy. Privately initiated and funded, the Task Force was comprised of 26 individuals who have diverse experience in housing policy, production and finance. Drawn from business, banking, community service, and state and local government, the nonpartisan group was led by James W. Rouse, as chairman, Chairman and Chief Executive Officer of The Enterprise Foundation; and David O. Maxwell, as vice chairman, Chairman and Chief Executive Officer of the Federal National Mortgage Association (Fannie Mae).

The Task Force was organized to help set a new national housing agenda, aimed at assuring all Americans access to fit, livable and affordable housing; and to recommend how to combine public and private policies and resources most effectively toward that end. In the course of carrying out this charge, the Task Force had the benefit of the ideas and analyses of many individuals and organizations.

The efforts of Congressional leaders—particularly Senators Alan Cranston and Alfonse M. D'Amato, the Chairman and Ranking Member, respectively, of the Senate Subcommittee on Housing and Urban Affairs—to undertake a comprehensive review of housing policy led to the creation of the National Housing Task Force. During its deliberations, the group reviewed position papers on housing policy from 72 interest groups and other commentators, submitted to the House and Senate Banking Committees. These were valuable sources of information, concepts and viewpoints.

Also important in the Task Force's evaluation was a series of 20 draft reports prepared by scholars and practitioners under the direction of Professors Langley C. Keyes and Denise DiPasquale of the Massachusetts Institute of Technology. Each of the papers was examined, and several authors appeared as speakers before the Task Force.

An organizational meeting was held on September 21, 1987. The Task Force then met almost every week in a series of two-day sessions through early December. There were several additional meetings during the first quarter of 1988 to review the drafts of this report.

Discussions were augmented by the observations of outside experts who joined the meetings and by review of extensive written materials. A further broadening of information and opinions came through the National Housing Policy Advisory Panel, established by the Task Force and co-chaired by Leland Brendsel, President of the Federal Home Loan Mortgage Corporation (Freddie Mac), and Ira Gribin, President-Elect of the National Association of Realtors. The Panel's 42 members contributed useful ideas to the Task Force in a meeting and other communications.

Numerous individuals, agencies and institutions assisted the Task Force in completing its work. The contributions of information and insight by Dr.

Morton J. Schussheim of the Library of Congress were highly valuable. Jill Khadduri of the U.S. Department of Housing and Urban Development also offered essential information and helpful comments. Doug Bibby, Chris Duerksen, Roy Kahn and Carol T. Robbins gave invaluable assistance in writing the final report. The Urban Institute acted as fiscal agent, provided meeting space and generally made it possible for the Task Force to function.

The Task Force received financial support from many institutions. Particular gratitude is due the Charles Stewart Mott Foundation, without whose assistance the Task Force could not have conducted its work.

While not every statement nor the wording of every recommendation is endorsed by each member of the Task Force, consensus was reached on the nature of America's housing needs and the basic steps that should be taken to respond to that challenge.

The Task Force believes that, as we enter the last decade of this century, we are at the beginning of a great national debate about the course of American society. We offer here our best collective thoughts on the directions to take to achieve an old promise and an ever-present dream—that all Americans be decently and affordably housed and able to live in safe, sound and vital communities. We hope this report will contribute to reaching that goal. ■

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COVER
Top left: ***First-time home buyers—New Orleans.***
Bottom left: ***This family lived in a bus last winter because it could not find fit and affordable housing—Big Stone Gap, Virginia.***
Right: ***After being abandoned by the owner in 1983, this house is still occupied by a family in 1985, despite lack of heat and water—Newark, New Jersey.***

Requests for additional copies of this report should be made to the Task Force Staff at 1625 Eye Street, N.W., Suite 1015, Washington, D.C. 20006.

Call to Action

Americans today are the best-housed people in history.

U.S. President's Commission on Housing
November 1982

Cots were set up last night in Washington's city hall, 14 blocks from the Capitol, to provide the homeless with an alternative to sleeping on subway grates and in other makeshift accommodations during this week of record-breaking cold temperatures.

National News Reports
January 6, 1988

This is the paradox of housing in America. For most, housing is a dream fulfilled; but for too many others, housing is unavailable, unaffordable or unfit.

The progress that has been made in recent decades is indisputable and a matter of pride for the nation and its policy makers. By coupling the best of private and public efforts, we have raised the standards of housing in which our people live, alleviated much of the overcrowding and unfit conditions, and increased the rate of ownership. The promise of "a decent home and a suitable living environment," set forth by the Housing Act of 1949, has become a reality for most of our citizens.

But the 1949 commitment was "for every American family." And for millions of our families, we have not only fallen short but are losing ground. Across the country, civic, political, business, labor and religious leaders are speaking out about the increasing numbers of people who live so miserably alongside those of us who live so well.

We care as a nation. We care for and are deeply troubled by:

- people huddled on grates or wrapped in cardboard boxes—the "homeless,"
- mothers, fathers and children without a place to live—tens of thousands of families forced to the streets—the "new homeless,"
- families who owe rent they cannot afford and may not be able to pay,

who live with no cushion between a setback and the street—the "near homeless,"

- children growing up in terrorized neighborhoods, made captive to drug dealing and other crime,
- and families living in shacks in rural areas without plumbing, running water or protection from the elements.

We care, too, about young families struggling to meet current expenses, seeing their dream of acquiring a home becoming ever more distant in the face of rising prices, declining savings and heavy debt burdens.

This does not represent the character, the heart and soul of our great country. More and more of us are aroused by what we see and the challenge we feel.

There was deep concern among the members of the Task Force of 26 men and women—bankers, public officials, lawyers, home builders, housing professionals, real estate people. As we explored the conditions and searched for answers, determination mounted among us that we cannot tolerate the suffering to which more and more of our people are consigned . . . that there must be answers, and that as a nation we must find them.

The time has come to raise these conditions to a compelling level of concern—to the highest priority of attention and commitment—not just of the federal government but of state and local governments, for-profit and non-profit housing developers, businesses, religious institutions, civic groups and individuals. Housing must not be a partisan issue; it transcends party or faction. This must be a true national program. We must halt the spread of a separated culture, both urban and rural, before continuing deterioration results in severe, and potentially irresolvable, frustration and division.

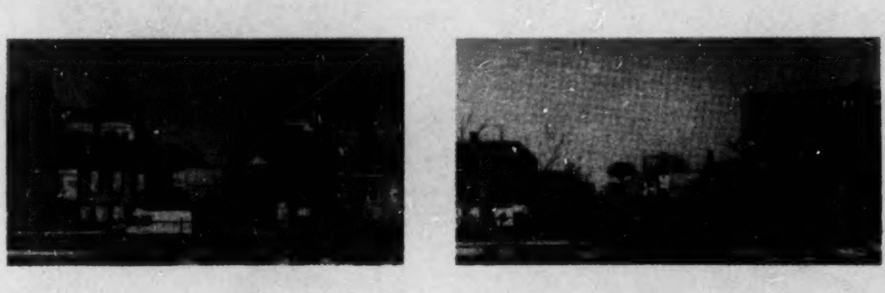
Our report outlines a 10-point program to provide housing opportunity for all Americans.

The program must be commenced rapidly and carried forward vigorously. It should be marked for completion by the year 2000—in 12 years. We must fire up the energy and fulfill the legitimate expectations of decent housing for all our people.

The Task Force knows that fit and affordable housing alone will not solve all the problems of the poor. Education, training, jobs and health care are also part of our national concern and must be provided for on the national agenda. The plague of drug use and drug dealing must be confronted.

But, a decent place for a family to live becomes a platform for dignity and self-respect and a base for hope and improvement. A decent home allows people to take advantage of opportunities in education, health and employment—the means to get ahead in our society. A decent home is the important beginning point for growth into the mainstream of American life.

South Bronx, New York, in 1979, 1981, 1982 and 1985—the cycle of housing decay, abandonment and demolition in a neighborhood.



As a nation, we have recognized the vital role that housing plays in human and community development. Our commitment of the past, most notably that of the federal government, has contributed to the housing that most American families enjoy today. An efficient, highly competitive home building industry has produced more and better housing than that of any other country in history. A resourceful and flexible housing finance system has combined private and government insurance and guarantees with a thrift industry and secondary market to make homeownership a reality for middle-income as well as upper-income Americans.

But, while our progress has been great, much remains to be done.

The rate of ownership has suffered a prolonged decline for the first time since the Second World War, particularly among the younger population groups that traditionally are first-time buyers. Relying primarily upon market-based mechanisms, the Task Force believes there are steps that can and should be taken to overcome obstacles to homeownership.

The housing problems of the poor, however, are beyond solution by the market system alone and have fallen outside the focused attention of our society. Many of the poor are unseen or unnoticed by the majority of Americans. Their difficulties seldom touch us. But none of us can fail to be moved by the sight of the homeless, whose growing presence in our streets is a daily reminder of their plight.

The problems of the homeless are merely the tip of the iceberg, a manifestation of a graver and more pervasive condition: the large number of poor people and the decline in the supply of housing they can afford. Many units that once housed them have been lost as a result of demolition, abandonment, rehabilitation for higher-income residents and conversion to non-housing use. The supply of new affordable housing does not nearly match these losses.

These are the conditions that led to the creation of a National Housing Task Force and lead us to propose immediate action to address America's acute housing needs.

This is the wealthiest nation in the world, with superlative problem-solving capacity. Surely we can match our resources to our deep concern for the dignity and well-being of our people. We can provide the opportunity for fit, livable and affordable housing for all Americans.

This is our challenge. This is our responsibility. ■

The Housing Needs of Americans

This report is about America's most pressing housing needs. In this context, the reader will not find much space devoted to the "good news" about our housing. Other reports point to the achievements we enjoy in housing the majority of Americans.

Indeed, for most people in the United States, particularly middle- and upper-income families, housing has been one of our country's most visible success stories. Until the 1980s, we experienced uninterrupted growth in our homeownership rate, from a post-Depression starting point of 44 percent in 1938 to an all-time high of 65.6 percent in 1980. In 1987, the United States housing supply reached one hundred million dwelling units, an illustrious housing production achievement.

Ironically, the very progress we've made, the remarkable resilience of both our housing finance and production systems, and the satisfaction most Americans feel with their housing have helped obscure the very real problems that exist. And this, in turn, has weakened the resolve of the political system to attack these shortcomings. Yet the problems are severe and growing.

The Number of Poor People Seeking Housing Remains High[1]

We are a rich nation, but most of our households are not wealthy. Of the 241 million people who lived in the United States in 1986, one in seven, over 32 million people, lived below the poverty line ($11,203 for a family of four; $5,572 for an individual).[2] Almost a third of all households earned less than $15,000.

Those who struggle with modest or minimal incomes represent a cross section of America. They are young, middle-aged, elderly, disabled. They are single parents and intact families. They are working. In 1986, one quarter of all full-time jobs, 24 million positions, did not pay enough to raise a family of four above the poverty line. In that year, 15 percent of those over 14 years old living in poverty had full-time jobs. Most of the poor are white, though disproportionate numbers of blacks and Hispanics are poor.

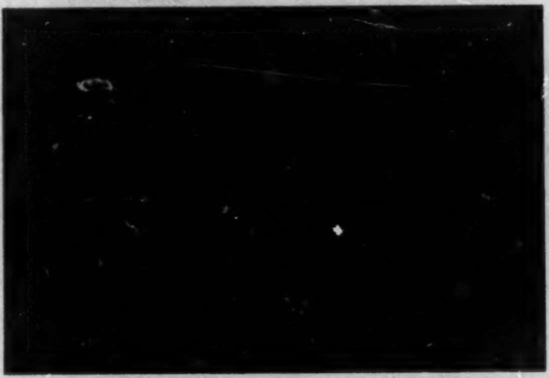
The primary financial problem for most of these households is paying for housing. Those above the poverty line, whose incomes have not kept pace with rising rents, face the same problem.

The majority of poor people are renters. In 1987, 63 percent of all poverty-level households were living in rental housing. And in the battle to keep incomes and housing expenses in balance, renters face the greatest hardships. As a group, they are significantly poorer than homeowners and are becoming increasingly poor as the better-off among them make the leap to ownership.

The median income for all renters (in 1986 dollars) was $18,000 in 1972. By 1986, it had declined to $15,300 and was one half the median income of homeowners. The decline in income was particularly severe for younger households, with income of renter households aged 25 to 34 declining 18.5 percent. From 1974 to 1987, the number of renter households with incomes under $5,000 (1986 dollars) grew substantially, from 2.7 million to 4.7 million.

The Supply of Affordable Rental Housing Is Dwindling

For many decades, the private housing market met the needs of low-income renters, at least in part, through the so-called "trickle down" process. As



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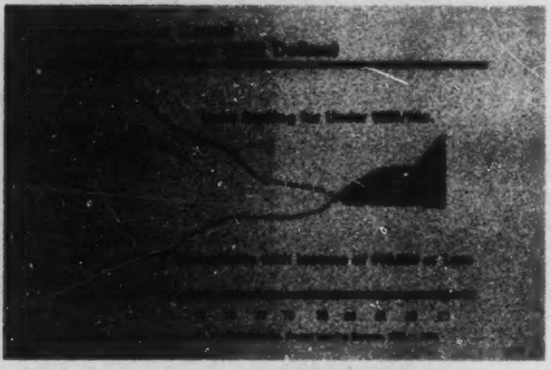
[1] Unless otherwise indicated or apparent from the context, data on housing characteristics are taken from the 1983 American Housing Survey, which is the most recent available. The Housing Surveys from 1973 through 1983 utilized the same sample of units, but an entirely new sample of units was used in the 1985 Survey and the 1985 data, to be released this summer, may not be comparable to the data from the earlier surveys.

[2] When used in this report, the term "poor" refers to a person or household below the poverty line; the term "low income" refers to a household with an income below the very-low-income limit established by the U.S. Department of Housing and Urban Development (HUD), which is generally at 50 percent of the median income for the area, adjusted for household size; and the term "lower income" refers to a household with an income below the lower-income limit established by HUD, which is generally at 80 percent of the median income for the area.

units aged, they became available to renters farther down the income scale. In recent years, evidence suggests that the trickle has slowed considerably. From 1973 to 1983, for example, 4.5 million units were permanently removed from the housing stock through either demolitions or structural conversions; almost half of those units are estimated to have been occupied by low-income households.

In addition to this loss of low-income housing, rental rehabilitation expenditures, which remained at a constant annual level in real terms from 1970 to 1982, more than doubled between 1982 and 1986. Unfortunately, where subsidies were not available to protect low-income tenants, these expenditures for upgrading properties often put housing that once was affordable to the poor out of their reach.



Demolitions, conversions, renovations and increased rents have all played a role in the decline in the number of affordable private-market units. In 1980, the number of low-income renter households (earning $10,000 or less) seeking affordable housing (below $250 a month, constant 1983 dollars) had outstripped the supply theoretically available to them. Moreover, since low-income households compete with other renters in the housing market, only 54 percent of those affordable units were actually occupied by low-income renters in 1983.

Current production efforts offer little hope of relief. From 1976 to 1982 more than a million new, federally subsidized units of lower-income housing were added to the supply. In recent years, fewer than 25,000 units have been produced annually. And the private sector, without subsidy, cannot produce housing for low-income households. In 1986, only 7.5 percent (30,600 units) of the private sector's new unsubsidized, multifamily production rented for less than $300 a month. In the first half of 1987, more than 40 percent of these new apartment units rented at rates affordable only to people with annual incomes above $22,000.

Housing for low-income households is further threatened by the potential loss of more than one million units of federally assisted but privately owned housing, through the termination of low-income restrictions or the expiration of subsidy contracts.

Rent Burdens Are Heaviest on the Poor

The portion of income that poor families must allocate to housing has escalated dramatically. Between 1970 and 1983, median rents increased at about twice the rate of median incomes. And most poor people do not live in subsidized housing where costs and incomes are kept in affordable proportions. In 1983, of the 12.9 million low-income renter households, only 28 percent benefited from federal housing programs.

The growing disparity between rents and incomes has translated to increasing rent burdens for poor people. In 1975, 3.7 million low-income renter households paid more than 50 percent of their incomes for rent. By 1983, that number had grown to 6 million, or almost half of the universe of low-income renters, paying more than half of their incomes for rent.

Rent burdens have become more severe for younger people, both married couples and single heads of households. From 1973 to 1986, the real income of young renter couples fell by 14 percent. And from 1974 to 1987, the income of young single-parent renter households fell by 34 percent, from $10,965 to $7,271. Not surprisingly, the rent burden for these single-parent families increased from 35 percent in 1974 to 58 percent in 1987.

The level of rental assistance has not kept pace with the need. In 1974, 2.2 million renter households with incomes under $5,000 received no rental assistance. By 1987, this pool of income-eligible but non-subsidized renter households had grown to 3.2 million. Among households with incomes in the $5,000 to $10,000 range, the number not receiving rental assistance grew from 3.8 to 4.5 million. Nationally, there are an estimated 1.0 million families on waiting lists for public housing. Some lists have been closed to new applicants.

Housing Conditions: A Double-Edged Sword for the Poor

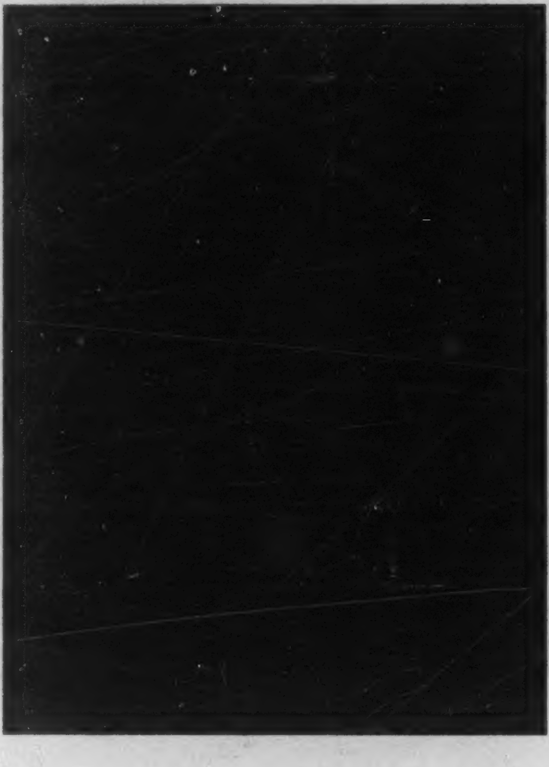
Twenty years ago, the Kaiser Commission's report on housing highlighted the extensive physical inadequacies of a substantial part of America's housing stock. For example, the Commission, citing the 1960 Census, found that nearly one quarter of the nation's housing stock lacked complete plumbing facilities or was "dilapidated" or "deteriorated." By 1983, due to intensive public and private efforts, only 3 percent of the housing stock lacked plumbing, and the incidence of severe deficiencies was similarly reduced.

However, in 1983, there still were 7.6 million occupied substandard units in the United States; 5.5 million of these units were occupied by lower-income renters and homeowners who were forced to deal with deficiencies such as no kitchens or toilets, or combinations of defects including heating or electrical breakdowns. Substandard housing is particularly prevalent in rural areas, which have 44 percent of the nation's inventory of substandard units.

We can expect to see continued progress in reducing physical inadequacies of the nation's housing stock. But there will be a price to be paid for this improvement: low-income households will need more income or assistance to be able to pay market rents for the improved housing, or subsidies to owners will be needed to lower rental costs.

Lower-Income Homeowners: Economic and Physical Troubles Persist

In 1983, there were almost as many lower-income homeowners as lower-income renters (19 million homeowners and 19.4 million renters). Approximately 47 percent of these homeowners were elderly, and about 39 percent of lower-income homeowners lived in non-metropolitan areas.



Although the housing problems of lower-income homeowners are not as pronounced as those of renters, they still are significant. For example, poor rural homeowners tended, far more than their urban counterparts, to have physically substandard dwellings.

First-Time Home Buyers: The Dream Is Fading

In the past few years, homeownership opportunities have expanded as interest rates have declined. "Affordability" is up in some widely circulated indices. Yet all is not well for the American home buyer.

Hundreds of thousands of young American families who hope to purchase a home, as did their parents and grandparents before them, are seeing that dream deferred. Others fear that homeownership will remain forever out of reach.

Reversing a 40-year trend, the period from 1980 through 1986 saw a steady decline in the nation's homeownership rate. While the percentage of decline appears small—from 65.6 percent of households as homeowners to 63.8 percent—it means that nearly 2 million fewer families own homes today than would have, had the prior rate been sustained. The impact was particularly great on young families—precisely the people who look toward buying their first home. The homeownership rate for 25 to 29 year olds has dropped from a peak of 44 percent in 1979 to 36.2 percent in 1987. The group of people between the ages of 30 to 34 has experienced a similar decline. Moreover, the decline was concentrated particularly among young families with incomes below the 1987 national median of approximately $30,000.

Homeownership is becoming a fading dream as a result of high real mortgage rates, rising home prices and down payment requirements. On an after-tax basis, today's home buyer pays a substantially greater proportion of income for housing than did the buyer of 10 to 15 years ago. As a result, young wage earners entering the housing market are less able to both secure and carry a mortgage, given current interest rates and housing prices.

Where high carrying costs do not discourage potential first-time home buyers, down payment requirements do. Responding to high default experience in the early 1980's, private lenders have tightened underwriting standards and increased down payment requirements. Static incomes, high living costs and substantial levels of student debt leave young families with little room to accumulate down payments.

Regional economic conditions result in even more severe problems for first-time purchasers in particular areas. For example, a purchaser of a median-priced home in mid-1987 in the Boston area needed to bring $22,854 to closing (including a cash down payment of $17,580) and needed an income of nearly $65,000 a year in order to qualify for the mortgage. The example is predicated on a 10-percent down payment, which constitutes an extraordinary burden for most first-time home buyers—particularly since high rents make it very difficult to save the money needed. Moreover, low down payment loans are harder to come by and can carry higher mortgage interest rates than those with higher down payments. ■

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Renewing the Nation's Commitment

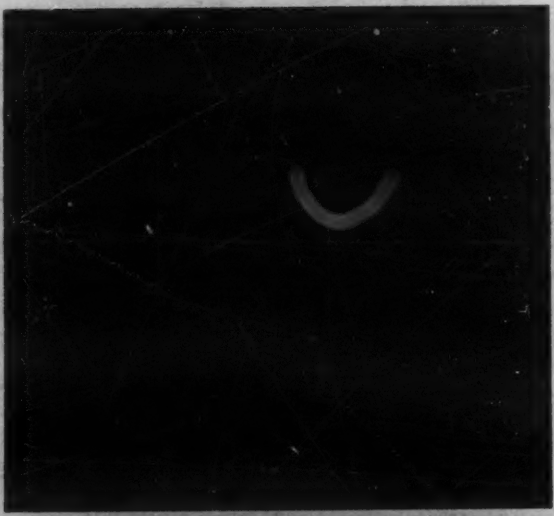
Recognition of the housing conditions and needs of the American people must be followed by action. The Task Force has found that there is no single solution, but rather a series of concrete actions to be taken that, over time, will decisively attain the goal of fit, livable and affordable housing for all Americans.

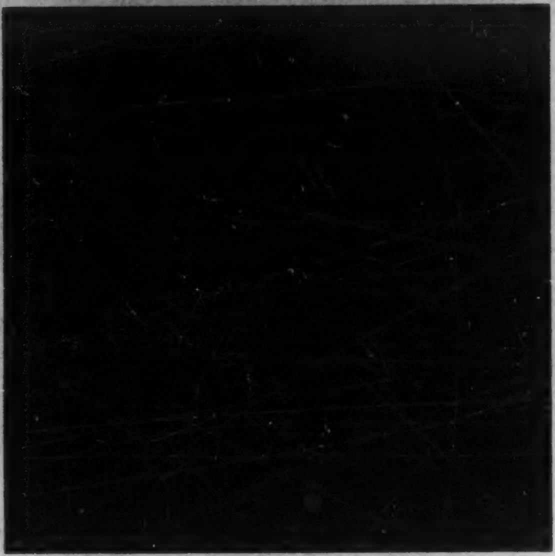
The first step is commitment. The federal government must reaffirm its role as a leader in finding solutions to the country's housing problems. The federal government must shape the national housing agenda—draw attention to needs, set goals, establish standards for performance, provide funding and stimulate additional investment from state and local governments and the private sector.

We would not have come as far as we have in meeting our housing needs if the federal government had not exercised this responsibility. In the past 50 years, federal involvement has been manifested in a variety of ways, sometimes with great creativity and imagination. The simple device of pledging the full faith and credit of the federal government revolutionized the nation's housing system by making possible long-term mortgages at a fixed cost with low down payments—turning America into a nation of homeowners.

Today, we need a renewed federal commitment to capitalize on the private sector's growing body of experience in producing and rehabilitating low-income housing through its partnership with the public sector. This experience has been evolving for over two decades and is reflective of the clear understanding that housing for poor people cannot be produced by the private sector acting alone. In fact, prior federal investment in these private-public partnerships created over 3 million units of affordable housing.

The rules posted in this Milwaukee shelter indicate that violence can be the result of frayed nerves and frustration. Families, the chronically mentally ill, veterans and substance abusers live side by side.





The nation has at hand the knowledge, skill and determination to provide housing affordable to low- and moderate-income households. This capacity can be used to develop new alliances among the public, private and community sectors to produce and preserve affordable housing.

The public partners are the federal government, state and local governments—including state and local housing finance agencies and the more than 3,000 public housing authorities around the country.

The private partners are developers, builders, managers, financial institutions, businesses and investors who would create and maintain housing for low- and moderate-income people if public investment were available.

The community partners are civic and religious groups and national and local nonprofit organizations that would help facilitate the delivery of housing opportunity to those who need it.

The combination of effort by these public and private entities constitutes a "new wave" of initiative and resourcefulness in meeting our critical housing needs. Vigorous and diverse, it raises new possibilities and new hope for housing low- and moderate-income families.

What is missing is adequate participation by the federal partner.

The 80 percent decline in HUD funds for new housing commitments over the past decade has hindered the growth of this new system to deliver affordable housing. The retrenchment of national housing policy and federal funding in recent years has kept the impact of the system small and the geographic coverage spotty.

This new system offers the opportunity to reaffirm the federal commitment in ways that will build on and build up local and state efforts throughout urban and rural America. The principal recommendation of this Task Force is to solidify and further that new partnership.

- It is based on the conviction that the federal government is the pivotal force in meeting housing needs and must be the principal source of funding.
- It is based on the understanding that government closest to the people is best situated to identify and respond to needs and conditions—especially the conditions of local housing markets.
- It requires states to provide and attract new non-federal funds for affordable housing in return for additional federal investment. The principle of using federal funds to leverage other investment is key to the new partnership and a new element in federal housing policy.
- It fosters a variety of housing delivery systems—public, private and nonprofit.
- It combines and balances different forms of public investment to increase the supply of new low-income housing, preserve existing stock and provide rental assistance to low-income households.
- It requires that housing assistance be directed to those most in need and focuses on increasing share of the housing supply dedicated to low-income use.
- It recognizes that improvements in housing conditions are linked with the physical and economic revitalization of neighborhoods and improvements in the delivery of services by local governments.

We have learned, over the last quarter century, that housing problems are varied and complex. To be effective, housing assistance must assume different forms. These include direct expenditures in the form of loans and grants to reduce the capital cost of housing; rental assistance to help pay the cost of decent housing on the private market or meet the irreducible cost of expenses in housing provided through public-private partnership; tax incentives to reduce housing costs and attract private investment; and federal insurance and guarantees.

Domestic terrorism: a police officer prepares for battle in a poor, urban neighborhood.

[illegible] and the range of [illegible] [illegible] that must be [illegible] [illegible], as the [illegible] public housing projects [illegible] of these projects [illegible] that have proven [illegible] responsibility for [illegible]

Just as [illegible] convened in [illegible] [illegible] others were wounded in [illegible] be high-level effort against domestic [illegible] today. The commission should be [illegible] tion of concerned federal, state and local [illegible] distinguished private citizens. [illegible] charged to develop a comprehensive [illegible] domestic terrorism, with specific [illegible] appropriate legislation and other actions at the federal, state and local levels. Legislative bodies should [illegible] such legislation as promptly as possible.

By [illegible], our nation should be united in a [illegible] to eliminate the scourge of domestic terrorism from our cities. There is no greater priority than [illegible] decent environment in which our people live and our children grow up. ■

When these tools are combined in a federal housing policy, they can be employed by state and local governments, adding their own resources, to address the issues and conditions in their individual cities, towns and rural communities. New affordable housing can be built where shortages exist; moderate and substantial rehabilitation can be carried out where the appropriate stock is available; low-cost loans can be made to homeowners or landlords to preserve a supply of housing without inflating its cost.

Past housing programs and policy also have left us with a valuable legacy—affordable, assisted public and private housing, which must be preserved. In conserving the stock of public housing, the federal government and housing authorities should begin a new era of cooperation, thoughtful evaluation and work to restore and revitalize this resource. A new spirit of cooperation also should arise between the federal government and private owners of assisted housing in order to preserve this housing for low-income residents.

The Task Force's recommendations emphasize building on past accomplishments as well as the opportunities for creating a new housing delivery system. The proposals provide a combination of approaches that together will produce the results we seek: fit, livable and affordable housing for all our citizens by the year 2000. The challenge to Congress, the President and the American people is to provide the resources and tools to make that goal attainable. The challenge to our states and communities is to augment and effectively use the resources, so that the goal is achieved. ■

Summary of Recommendations

I. A New System for Delivering Affordable Housing (Page 18)

RECOMMENDATION: The federal government should create and invest in a "Housing Opportunity Program" (HOP) designed to foster and stimulate state and local initiatives to develop, renovate and conserve low-income housing. (Page 18)

The proposed Housing Opportunity Program (HOP) will provide federal funds at the state and local levels to support and stimulate the delivery of low-income housing. With a first-year appropriation of $3 billion, HOP will be responsive to local needs and will induce significant new resources to build, renovate, repair or acquire 150,000 to 200,000 units of fit and affordable housing.

RECOMMENDATION: HOP should induce substantial new state and local support for housing and should encourage the recycling of federal funds. (Page 19)

HOP will require that state and local governments provide substantial funds for housing to match federal funds. Half of the HOP funds will be allocated by formula to the states for distribution to localities, contingent upon the generation of new state and local resources for housing. Recapturing and recycling federal money at the local level will be encouraged.

RECOMMENDATION: The federal government should make a long-range commitment to increasing the supply of long-term, low-income housing through HOP. (Page 20)

Because of the country's critical housing needs and the multi-year nature of effective housing efforts, the federal government must make a substantial, long-term commitment to HOP. Moreover, to ensure local governments a more stable, predictable flow of housing assistance, one half of the HOP funds will be distributed to communities according to a formula on the basis of need, with no matching requirement.

RECOMMENDATION: HOP funds should be provided with maximum flexibility and minimum regulation. (Page 21)

To tailor responses to local housing needs, state and local governments will be able to use HOP funds for a wide range of housing activities, subject to certain income targeting and performance requirements. HOP will be the primary vehicle for channeling new federal housing production funds.

RECOMMENDATION: HOP should place a shared burden of responsibility on state and local governments to create effective approaches to meeting national goals and addressing special needs. (Page 21)

Federal funds must be used to meet important national goals, such as helping low-income households where the need is greatest, combating housing discrimination, reducing housing costs, serving groups with special housing needs and preserving and improving urban neighborhoods and rural communities. State and local governments must show tangible progress toward meeting these goals.

RECOMMENDATION: The federal government must ensure the availability of adequate housing data. (Page 24)

The flow of comprehensive information regarding housing has been curtailed drastically by recent decisions of the federal government. If state and local governments and housing providers are to respond effectively to housing needs, they need accurate data. The federal government must invest sufficient funds and resources to ensure this information is available.

II. New Sources of Capital and a New Institution for Low-Income Housing (Page 26)

RECOMMENDATION: The federal government should support benevolent loan funds and community development banks and should create a new national corporation to support local housing delivery systems. (Page 26)

RECOMMENDATION: The federal government should provide standby support to "benevolent lending." (Page 26)

With limited federal support, substantial new capital can be attracted to low-income housing through the establishment of Benevolent Loan Funds. These funds accept deposits at low interest rates from socially motivated investors and lend that money at below-market rates to low-income housing developers and low-income home buyers.

RECOMMENDATION: The federal government should promote community development banks. (Page 30)

Federal seed money should be provided to help establish a small number of privately owned, local community development banks to fund affordable housing activities.

RECOMMENDATION: The federal government should create a national corporation to support the new housing delivery system. (Page 31)

The federal government should establish and fund a "Housing Opportunity Corporation of America" to support and advance low-income housing initiatives at the state and local levels, to stimulate Benevolent Lending and community development banks, to gather and distribute information about successful efforts, and to report to Congress and the President on the progress and problems of the new housing delivery system.

III. The Nation's Existing Low-Income Housing Stock
(Page 32)

RECOMMENDATION: Federal, state and local housing efforts must place greater emphasis on preserving and improving existing low-income housing. (Page 32)

RECOMMENDATION: The federal government must take immediate steps to maintain the supply of federally assisted housing. (Page 33)

Hundreds of thousands of units of federally assisted housing are threatened by early withdrawal from federal programs through advance payments of assisted mortgages and by the expiration of rental subsidy contracts. Expiring contracts must be extended. Moreover, a balance must be struck that protects the interests of both owners of assisted housing and their tenants.

RECOMMENDATION: State and local governments should use HOP as an important tool in efforts to preserve privately owned, unsubsidized low-income housing. (Page 34)

The great majority of poor people live in privately owned housing. Typically, renovation and maintenance of such property cannot be supported by the rents the poor can afford to pay. HOP funds should be used to support preservation and renovation programs that keep existing housing fit and affordable for low-income people.

IV. Public Housing (Page 36)

RECOMMENDATION: The federal government should support the restoration and revitalization of public housing. (Page 36)

The nation's most valuable low-income housing resource and some of its most visible housing failures can be found in the public housing program. The Task Force recommends immediate as well as long-range measures to improve public housing.

RECOMMENDATION: HUD must identify and remedy the most seriously troubled projects. (Page 36)

The worst housing projects must be targeted for immediate action. Where state and local governments and local housing authorities do not act, HUD must consider federal control or judicial receivership.

RECOMMENDATION: The federal government must commit to completing modernization of the public housing inventory. (Page 37)

Public housing provides decent, affordable housing for most of its 1.4 million families, but thousands of units are in need of immediate renovation. The federal government must commit itself to a long-term program to renovate and maintain this valuable resource.

RECOMMENDATION: The federal government, in partnership with state and local governments, must take steps to strengthen housing authority management. (Page 37)

RECOMMENDATION: HUD and local authorities should continue efforts to involve tenants in project management. (Page 38)

RECOMMENDATION: HUD and local housing authorities should explore carefully special situations for homeownership and sales of projects to tenants. (Page 38)

RECOMMENDATION: The federal government should allow public housing authorities to produce housing, within budgetary constraints. (Page 39)

Congress should allow the many competent housing authorities to continue to develop public housing units where needed, at a level consistent with budgetary constraints.

V. Tax Policy and Low-Income Housing (Page 39)

RECOMMENDATION: While preserving the essential reforms of the Tax Reform Act of 1986, the federal government should use tax policy to support low-income housing. (Page 39)

RECOMMENDATION: The federal government should expand the availability of tax-exempt financing for low-income rental housing. (Page 40)

While the basic targeting of tax-exempt financing would be retained, its availability should be expanded and its value increased through certain changes in the tax laws.

RECOMMENDATION: The federal government should provide favorable tax treatment for low-income housing. (Page 41)

In order to enable HOP to realize its full potential, specific tax policies would be required to attract private investors to rental housing serving low- and moderate-income households.

RECOMMENDATION: The federal government should improve and extend the low-income housing tax credit. (Page 41)

The low-income housing tax credit program must be extended beyond its 1989 sunset date, and certain technical changes should be made to allow it to reach its full potential.

RECOMMENDATION: The federal government should provide incentives for the donation of assisted housing to nonprofit organizations, low-income tenant cooperatives and public agencies. (Page 43)

VI. The Gap Between Housing Costs and Income (Page 43)

RECOMMENDATION: The federal government should commit to an adequate rental assistance program to complement production and preservation efforts. (Page 43)

Rental assistance is an essential complement to the Task Force's recommendations to increase the supply of affordable housing. Only through a combination of increased supply and rental assistance can the goal of fit and affordable housing for all Americans be met by the year 2000.

RECOMMENDATION: A more flexible definition of reasonable rent burden should be adopted. (Page 44)

To more closely reflect tenants' ability to pay, the Task Force recommends that Congress consider requiring a sliding scale of rent payments based upon family size and income.

RECOMMENDATION: Rental assistance should be tied to federal housing quality standards. (Page 44)

VII. Homeownership (Page 45)

RECOMMENDATION: The federal government should adopt a series of low-cost measures to expand opportunities for homeownership. (Page 45)

As it has done for a half century, the federal government should work to expand homeownership opportunities, particularly for first-time buyers. The Task Force recommends measures to reduce down payments and lower carrying costs.

RECOMMENDATION: The federal government should increase access to FHA mortgage insurance and the VA program. (Page 46)

The federal government should adopt measures to expand the availability of FHA adjustable-rate mortgages (ARMs), raise maximum FHA mortgage limits, reduce FHA down payments and update the VA program.

RECOMMENDATION: The federal government should take steps to ease down payment difficulties for first-time home buyers by allowing the use of IRA and other self-funded benefit plan monies. (Page 48)

RECOMMENDATION: The federal government should continue mortgage revenue bond programs for low- and moderate-income home buyers. (Page 48)

The Task Force recommends continuation of mortgage revenue bond programs for first-time home buyers, for targeted development efforts and for rehabilitation loans. Mortgage Credit Certificate programs should be used as an alternative to revenue bonds, where appropriate.

RECOMMENDATION: State and local governments should use HOP to assist low-income home buyers and homeowners. (Page 49)

RECOMMENDATION: Congress and HUD should explore the potential of employer-sponsored and employer-assisted housing. (Page 50)

RECOMMENDATION: States and localities should actively explore means of reducing regulatory constraints on the production of affordable housing. (Page 50)

VIII. The Housing Finance System (Page 51)

RECOMMENDATION: Congress should support the current housing finance system and not impose on it additional costs or other burdens. (Page 51)

The current housing finance system has shown remarkable resilience and has enabled millions of citizens to become homeowners by providing access to sources of capital. While the Task Force has recommended a number of modifications, Congress should continue to resist efforts to impose additional costs and restrictions on this successful system.

RECOMMENDATION: Bank and thrift regulators should consider the Community Reinvestment Act as a powerful incentive to encourage institutions to invest in low-income housing and community development. (Page 52)

The Community Reinvestment Act (CRA) has led to many productive local partnerships. The Task Force believes the CRA has even greater potential that can be realized through a combination of improved compliance review by regulators and incentives for good performance.

IX. Fair Housing (Page 53)

RECOMMENDATION: The federal government must renew its commitment to enforcing the laws against discrimination in housing. (Page 53)

The federal government must exercise leadership and concentrate on fighting housing discrimination, particularly against minorities and families with children, whether in publicly assisted or privately owned housing. Expanded fair housing efforts must be a fundamental component of national housing policy.

RECOMMENDATION: The federal government must increase the enforcement of fair housing laws. (Page 53)

RECOMMENDATION: Discrimination against families with children should be prohibited. (Page 54)

RECOMMENDATION: State and local governments should use HOP funds and rental assistance to counter housing discrimination. (Page 54)

X. Housing in Rural America (Page 54)

RECOMMENDATION: Current federal rural housing programs should be used, consistent with budget priorities, to improve housing conditions in rural areas. (Page 54)

A framework of federal housing programs, administered by the Farmers Home Administration FmHA, is currently in place that can, if expanded and adequately funded, improve housing conditions in rural America.

RECOMMENDATION: The Housing Corporation of America and the Farmers Home Administration should help build the capacity of rural nonprofit development organizations. (Page 55)

RECOMMENDATION: The federal and state governments should take steps to increase rural homeownership and to upgrade substandard housing. (Page 55)

RECOMMENDATION: FmHA and HUD should place greater emphasis on housing for farm workers and Native Americans, and HOP funds should be used to meet the special needs of these groups. (Page 56)

Reaching Our Housing Goals:
THE NEXT STEPS

We believe setting a goal of fit, livable and affordable housing for all Americans by the year 2000 will focus and drive federal, state and local action to make housing a priority and provide a measure for progress toward reaching that goal. Our recommendations, which combine production, preservation, tax incentives and rental assistance, are intended to set forth the means by which our nation can achieve the goal. If we are to hope to do this by the year 2000, we must start now, even though federal spending choices are severely limited.

To begin, we recommend first-year funding of $3 billion for the Housing Opportunity Program described in Recommendation I. This program will require state and local governments to match one half of the federal funding, or $1.5 billion, providing a total of $4.5 billion for low-income housing production, preservation and repair and other housing activities. We believe these funds can be used to add to or preserve 150,000 to 200,000 units of long-term affordable housing.

In addition, the 1989 federal budget calls for an increase of 100,000 units in the HUD rental assistance program. We believe this should be doubled to 200,000, at an incremental cost of approximately $380 million annually.

The combination of these programs, taking into account the fact that they will be used together in some areas, will produce, preserve or assist at least 300,000 additional affordable units.

In 1989, federal outlays for HUD housing programs are expected to be about $13.6 billion. An increase of $3.38 billion would represent less than a 25 percent increase in total expenditures for HUD housing programs, which would then equal approximately 1.5 percent of the total federal budget. If steps also are taken to preserve the existing federally assisted low-income housing stock, this can be an important start toward meeting our goal.

Housing production and preservation require planning and lead time, persistence and predictability of resources. They require the building of local capacity and taking action to create housing opportunities, which can only be done in anticipation of a long-term commitment. Sites must be acquired, plans drawn, financing obtained, infrastructure built. Such steps can be taken only with the steady and consistent commitment of a national policy and significant funding. The federal government should make that basic commitment—and make it now.

We believe that, with minor adjustments to the housing delivery system and with a modest cost to the federal government, homeownership opportunities can be expanded for hundreds of thousands of potential first-time home buyers. There is no impediment to immediate action on our recommendations with respect to homeownership.

We understand that the coming decade will present difficult choices for our nation. We have a $4 trillion economy, a marvel and monument to our productivity, ingenuity and freedom. It is subject to complex and varied national and international forces. In truth, no one can explain how it works—what combination of public and private effort will encourage greater productivity and prosperity. In making choices, we must be guided by our values and judge whether our system produces the results we want: decent housing, healthy and well-educated citizens, peaceful neighborhoods, safe roads and bridges, clean air and water, productive work and a more secure world.

We must choose whether and how to accomplish these results, as only a free people can. We believe that Americans have the strength, vision and common sense to choose wisely. ■

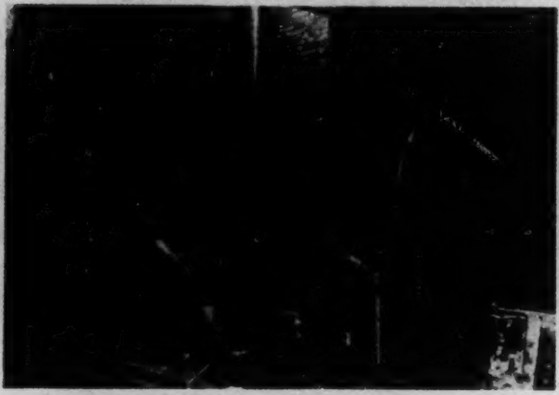
The Recommendations

I. A New System for Delivering Affordable Housing

RECOMMENDATION: The federal government should create and invest in a "Housing Opportunity Program" (HOP) designed to foster and stimulate state and local initiatives to develop, renovate and conserve low-income housing.

To meet the growing need for housing affordable to low-income Americans, the Task Force recommends a significant increase in the supply through new construction, rehabilitation, preservation and acquisition of existing stock. To begin this supply initiative, the Task Force calls for a major new federal production and preservation program with first-year funding of $3 billion.

Rehabilitation of inner-city houses in Pittsburgh by nonprofit organizations increases the supply of housing available to low-income people.



This renewed direct federal support to increase the supply of affordable housing is essential; however, both budget realities and past experience under categorical federal housing programs dictate that such assistance be provided in a new way. Even with a $3 billion increase in federal housing assistance, the supply gap could not be filled. Thus, any new federal program must be designed to induce substantial new money for housing from state and local governments and the private sector.

It is clear from past federal housing efforts that there is no single, national solution to widely diverse local housing problems. Housing markets are local, and the federal government is not as well-equipped as local governments to understand those markets, assess needs and develop tailored responses. If more federal money is to be invested in low-income housing, it must be used efficiently and assure long-term, low-income use.

The Task Force is greatly encouraged that a new delivery system that satisfies these needs has taken root and has grown over the last decade. It has emerged from the community level in response to local needs and dwindling federal support. It is marked by vigorous new efforts by state and local governments and nonprofit developers and has enlisted the strength and experience of private, for-profit developers. Local financial institutions, the business community and religious organizations are all important players in this "new wave" of local initiatives.

The new wave is characterized by new sources of money, new ways to cut construction costs and new techniques to reduce barriers to affordable housing. It is close to the people it serves, committed to low-income residents on a long-term basis and dedicated to overall community revitalization. It is sensitive to the need for good management and maintenance and is vested with the political skills to marshall support. It works in hundreds of different ways in hundreds of different places.

As illustrated by the examples on pages 24 to 29, the new delivery system is showing impressive potential. While encouraging, the rise of this new system could not have happened without substantial federal assistance, the common feature of practically all of today's local housing initiatives. The federal government has been an essential partner—sometimes a silent partner—by providing low-income tax credits, tax-exempt financing, rental assistance and below-market-rate loans that make projects feasible and affordable to poor people.

Based on the promise of hundreds of these state and community efforts, the Task Force recommends the creation of a new federal "Housing Opportunity Program" (HOP). HOP would be the primary vehicle for delivering new federal funds to increase the supply of low-income housing.

HOP is designed to induce substantial new funds and resources from state and local governments and the private sector. One half of the HOP monies will go to the states for state housing programs and for distribution to localities. These will require matching funds or equivalent resources from state and local governments, thereby producing an additional $1.5 billion for low-income housing, based on the recommended first-year funding of $3 billion. The other half of HOP funds, to be distributed directly to local governments, will be allocated according to a needs formula to provide the continuity and certainty so essential for effective multi-year housing efforts.

The U.S. Department of Housing and Urban Development (HUD) will administer the Housing Opportunity Program, but HUD will distribute funds to state and local governments with a minimum of regulation and maximum of flexibility to meet distinctive local housing needs. Federal regulations would grant great leeway in the methods and amounts of assistance, while requiring that the funds serve low-income people and that at least 10 percent of the funds be set aside to encourage nonprofit community-based housing developers. If used effectively, HOP can add 150,000 to 200,000 affordable units annually through new construction and rehabilitation as well as through the preservation and acquisition of existing housing.

The essentials of the Housing Opportunity Program are outlined here. In some instances, individual elements of the program are detailed, but the Task Force recognizes there are other reasonable variations in working out its major themes.

RECOMMENDATION: HOP should induce substantial new state and local support for housing and should encourage the recycling of federal funds.

The Task Force recommends that state and local recipients of HOP funds provide substantial amounts of new money (or its equivalent) for housing to match the federal assistance they receive. Given our tremendous housing needs and pressing federal budget constraints, federal dollars must be used to draw in and support new partners who can play significant roles in housing delivery.

To accomplish this, HUD will allocate by formula one half of the funds available through HOP—$1.5 billion—to the states for state housing programs and for distribution to localities contingent on the generation of equivalent new state and local resources for housing. These new resources could come from tax revenues, private charitable contributions, state housing agency reserves, local tax abatements, land donations and other sources. They would have to represent new, "hard" dollars that actually increase the funds available for housing. Federal funds of any type could not count toward the state contribution.

Once a state meets the matching requirement, it will distribute the funds in accordance with state-developed criteria. While freed of many traditional restrictions in spending HOP funds, state and local governments will be required to show that they are targeting their programs to assist low-income residents and are meeting other performance standards, as discussed later in this section.

Because HOP is aimed at strengthening the capacity of providers of housing for the poor, the Task Force intends that at least 10 percent of each locality's allocation be set aside specifically for use by community-based nonprofit organizations. To encourage maximum participation by all sectors of the housing delivery system, including private and nonprofit developers, public housing authorities should be permitted to use up to 25 percent of HOP funds.

Many states and localities already have demonstrated the will and capacity to participate in the type of initiatives encouraged by HOP. A few jurisdictions, because of high levels of poverty and poor housing conditions, may be unable to respond immediately. In some circumstances, consideration should be given to phasing in the matching requirement over a period of three or four years.

Despite these relief valves, it is possible that a handful of states may choose not to participate in this incentive portion of the Housing Opportunity Program. In that case, HOP funds not allocated would go into a discretionary fund administered by HUD. HUD would distribute these funds by a competitive process to public and private nonprofit and for-profit developers. The incentive criteria suggested above—particularly the contribution of local funds—would be used in selecting recipients of these discretionary HOP funds.

Recycling of HOP funds at the local level will be another hallmark of this program. Other federal community revitalization and housing programs have had impressive success with local governments recapturing federal subsidies after they have served their purpose and then recycling them back into the community. Under the Urban Development Action Grant (UDAG) program, for example, it is estimated that repayments to local governments in 1987 of federal funds loaned by cities to developers exceeded the 1987 $225 million appropriation for UDAG.

HOP will encourage a similar recapture and recycling of funds by local governments, insofar as that is feasible in a program of which the overriding goal is to house low-income people. Housing programs offer particular promise for repayments, since they often involve loans at very low interest rates that are paid back over time. Repayments could create substantial local trust funds for housing that would supplement continued federal and local funding in the future.

RECOMMENDATION: The federal government should make a long-range commitment to increasing the supply of long-term, low-income housing through HOP.

The Task Force calls on the federal government to make a long-range commitment to the Housing Opportunity Program, amounting to at least $3 billion annually through the end of the century. While funding would be appropriated annually, the long-term commitment is essential if state and local governments, private developers and the nonprofit sector are to increase their capacity to solve our housing problems. Housing is built for the long term, and the federal government must view it as a long-term investment. The country cannot afford another cycle of on-again, off-again federal housing programs.

The Task Force recommends that

the half of the $3 billion HOP funds not allocated to the states for the program's incentive portion be delivered to local governments in a predictable manner to ensure continuity in their programs. Thus, this $1.5 billion will be distributed directly to communities on the basis of a needs formula that takes into account such factors as population, vacancy rates, poverty, growth in housing demand and incidence of housing distress. No matching or additional contribution would be required. The Task Force recommends that funds go directly to larger cities and towns, and that an appropriate share be directed via the states to small towns and rural areas. (Past programs have allocated 25 to 30 percent to non-metropolitan areas.)

If a city or state fails to participate in or qualify for this part of HOP, the funds will be allocated for use in that jurisdiction by local private developers, nonprofits and others for eligible program activities. This will ensure that those truly in need will not be penalized for living in a nonperforming or recalcitrant jurisdiction. HUD would review applications directly under this phase of the program.

RECOMMENDATION: HOP funds should be provided with maximum flexibility and minimum regulation.

A primary goal of HOP is to provide federal funds for local housing efforts with a minimum of regulations and maximum flexibility to meet distinctive local needs. HOP funds will be channeled through state and local governments for a wide variety of purposes including, among other things: moderate rehabilitation of rental housing; code enforcement programs combined with the funding required to make repairs; building the capacity of locally based community development organizations; acquisition of housing; neighborhood preservation efforts; new housing development near employment centers; low-income homeownership; homeless assistance; and meeting the special needs of elderly and handicapped persons. Assistance could be provided in the form of grants, loans, interest reduction subsidies, operating support, or any other mechanisms the state or local government found appropriate and effective.

The Housing Opportunity Program will be the primary vehicle for new federal funding of efforts to increase housing supply. HOP will replace some major existing (or recently terminated) categorical housing programs, including rental rehabilitation grants, housing development grants, Section 8 moderate rehabilitation, Section 235 homeownership assistance and Section 312 rehabilitation loans. At current outlay levels, these programs cost approximately $300 million annually.

However, certain programs that serve unique needs with established delivery systems will be retained. These include Section 202 housing for the elderly and handicapped, the Indian Housing Program, public housing, a variety of programs targeted to assist the homeless, and the rural rental housing and low-income homeownership programs of the Farmers Home Administration.

HOP would not replace the current subsidy commitments under the Section 221(d)(3), Section 236 and other previously active programs that would continue to be administered and funded separately. Nor will HOP be used to address the problem of expiring federal subsidies on some privately owned, low-income developments. Moreover, related federal community development programs such as UDAG and Community Development Block Grants, which sometimes are used to fund housing developments, will not be disturbed or reduced because of the important role they play in overall community revitalization.

RECOMMENDATION: HOP should place a shared burden of responsibility on state and local governments to create effective approaches to meeting national goals and addressing special needs.

The Task Force intends that state and local governments be afforded broad latitude in assessing local housing needs and developing appropriate responses. However, it is important that

HOP funds be used to meet national goals such as housing low-income people where the need is the greatest, combating discrimination, reducing housing costs, serving groups with special housing needs, and preserving and improving communities. Therefore, state and local programs using HOP funds must:

a. Benefit Low-Income Households.

The primary goal of HOP is to help house low-income people. Thus, HOP funds will be subject to rigorous targeting requirements. For the nonmatching portion of funds allocated solely with regard to need, state and local governments will have to ensure that 80 percent of HOP funds are directed to assist households at or below 50 percent of median income. Furthermore, 100 percent of these nonmatching funds will have to go to households with income at or below 80 percent of median.

The remaining portion of federal HOP funds and the matching state money also will be subject to targeting, but the restrictions will be less stringent, to facilitate the development of mixed-income projects and the provision of assistance to a variety of households in neighborhoods identified for redevelopment or preservation activities. Thus, 40 percent of these funds will be targeted for households at 50 percent of median area income or below, and 80 percent for households below 80 percent of median, with the remaining 20 percent for households up to 120 percent of median.

All HOP funds as well as state matching funds could be used in mixed-income developments, but only to provide benefits to the target-level units. In addition to targeting, HOP funds should be used to ensure the long-term use of subsidized properties by low-income households through structured arrangements offering incentives and other inducements.

b. Expand Housing Opportunities.

The HOP program, in combination with rental assistance, will give state and local governments powerful tools for expanding the housing opportunities available to minorities. State and local programs must specifically address minority housing needs and adopt measures intended to break down barriers of discrimination and expand housing opportunities.

A number of local and regional governmental bodies have shown impressive creativity in using housing resources to combat discrimination. The Boston Fair Housing Commission, for example, has used litigation to prevent discrimination against holders of federal or state rent subsidies, and has used its own funds and CDBG grants to support community-based service agencies that provide fair housing counseling, referral and testing. The Task Force intends that such activities be encouraged and expanded.

c. Reduce Housing Costs.

By taking steps to reduce the costs of producing or preserving housing, state and local governments can do much to increase the availability of affordable dwellings. While many factors such as high interest rates and costly construction techniques contribute to high housing costs, factors under the control of state and local governments—such as outdated building codes, inappropriate subdivision regulations, exclusionary zoning controls and excessive development impact fees—can needlessly drive up the cost of low-income housing. Some of these regulations serve worthy safety, environmental and budgetary goals, but others do not. As a prerequisite to using HOP funds, state and local governments will be required to identify unnecessary regulatory barriers to housing development and carry out measures intended to reduce them.

d. Improve and Preserve Communities.

The construction or rehabilitation of low-income housing cannot take place in isolation from the community or neighborhood where it is located. The Task Force recommends that state and locally designed housing initiatives be developed as part of comprehensive, coordinated community stabilization and revitalization strategies.

e. Meet Special Needs.

The Task Force is recommending the continuation of a number of existing programs targeted to assist groups with special housing needs. HOP funds, furthermore, will be available to meet special needs that might not be addressed by categorical programs. State and local HOP recipients will be required to assess and address populations with special needs, some of which are discussed here by way of illustration:

- **Elderly.** Both HOP and the current Section 202 program will be available to support the development of affordable housing for low-income elderly citizens. However, an increasing number of "frail elderly" who are poor and can no longer live independently cannot find appropriate housing. No current subsidy program can adequately address this need.

  State and local recipients of HOP funds should assess the need of the frail elderly population in their jurisdictions. HOP funds would then be available to assist the development of appropriate facilities.

- **Handicapped.** HOP will supplement the two major housing programs serving the handicapped—Section 202 and Section 8 existing housing. The physically handicapped often require specially designed units or adaptive housing features so they can live independently. And the mentally ill and developmentally disabled sometimes need special facilities, such as group homes and extensive care and support services. Currently, federal and other programs are serving only a small percentage of identified needs.

  The Task Force intends that HOP recipients identify the housing needs of various handicapped groups in their jurisdictions and propose the use of HOP funds to address these needs. It is important that housing be coordinated with social service and rehabilitation programs for these people. In addition, HOP recipients should be required to help reduce obstacles to establishing group housing for the developmentally disabled and the chronically mentally ill.

Handicapped people require design features in their housing that will enable them to live independently.

- **Homeless.** The homeless population consists of different groups, each calling for different responses. Significant numbers of the homeless are mentally ill. They generally require support from community health systems, along with supervised group or independent living arrangements. Other homeless persons are substance abusers. To leave the ranks of the homeless, they need extensive rehabilitation services and time in transitional housing facilities. Another group, the fastest growing, consists of uprooted families whose breadwinner has lost a job. They may need short-term counseling and job placement services and assistance in finding suitable housing.

  A high priority should be placed on making sure that every homeless person has the access to decent shelter.

But an equal priority must be given to the prevention of homelessness. The programs recommended by the Task Force can be powerful tools in helping the current homeless and in preventing the "near homeless" from losing their place in society.

f. Demonstrate Progress.

With the freedom and flexibility that HOP will provide to state and local governments comes substantial responsibility. These governments must be accountable for carrying out the programs set forth in their strategies for using HOP funds, and for meeting the goals that they set in accordance with the timetables they project. Federal administration of the HOP program must contemplate periodic review of state and local progress toward their stated objectives. If HOP requirements for furthering national policy objectives are not met, if HOP funds are not expended in accordance with state and local programs, or if satisfactory progress is not made in accordance with the state and local timetables, HUD could impose appropriate remedies, including the reduction or suspension of funding.

Administrative sanctions should not be imposed, however, in a fashion that effectively deprives low-income people of housing. Thus, for example, if a state or locality fails to produce an appropriate program for the use of HOP funds and therefore does not qualify for its basic allocation, HUD should provide HOP funds directly to local developers and organizations to meet low-income housing needs. A similar process should be followed if nonperformance justifies termination or reduction of HOP funds to a particular state or local government.

RECOMMENDATION: The federal government must ensure the availability of adequate housing data.

If state and local governments are to respond effectively to housing needs, they need accurate data. For that information, government housing agencies on all levels, as well as the private sector, have relied heavily on the Census, the Annual Housing Survey and a

Delivering Housing: NONPROFIT DEVELOPERS

A new generation of community-based nonprofit development organizations, propelled by persistence and inventiveness, is an important part of the new delivery system. Different from community organizations of the 1960s, which were often created in response to federal programs, this new generation—some 4,000 strong—is made up of community development corporations, nonprofit developers, religious institutions and other neighborhood-based groups.

In a growing number of cities and towns, nonprofit developers are the primary or only producers of low-income housing. But they offer more than just numbers. They know local housing needs and are committed to serving them. They are determined to serve low-income residents on a long-term basis. They are willing to take on projects that are considered too risky or too small by financial institutions and other developers. From coast to coast and in between, the success stories are mounting:

- **In Boston, Inquilinos Boricuas en Accion has built or rehabilitated over 800 units for low-income residents in a rapidly gentrifying neighborhood.**
- **In Washington, D.C., Jubilee Housing has renovated 250 low-income apartments and established a comprehensive support system of health care, job placement and transitional housing to help the very poor help themselves towards self-sufficiency.**
- **The Greater Miami Neighborhoods (GMN) is providing development services to six constituent neighborhood and city-wide low-income housing groups. Since 1985, GMN has raised over $1.5 million from local government and the business community for loans, grants and operating expenses, producing initial commitments for 266 dwelling units.**
- **Headquartered in Sacramento, California, the Rural Community Assistance Corporation (RCAC) has assisted 406 rural communities and almost 500,000 individuals in 10 Western states. Operating primarily with grants and contracts from government agencies, RCAC has helped local communities develop**

series of other reports generated by the Bureau of the Census.

The flow of comprehensive information regarding housing has been drastically curtailed. The most recent Annual Housing Survey—the snapshot of the nation's housing condition—was conducted in 1983. In the intervening years, the report has been renamed "The American Housing Survey" and has been rescheduled to come out every other year. But the 1985 edition is scheduled for release in the summer of 1988, and there is no release date for the 1987 edition. As a result, housing policy analysts and this Task Force have been forced to use nonstandardized data from a variety of different sources.

In addition, changes have been proposed in the 1990 Census that will further obscure America's housing picture. Under current federal plans for conducting the 1990 Census, the number of housing questions on the 100 percent survey would be reduced to two from 12 in 1980. Several housing questions normally asked would be eliminated, and others are to be moved to the sample enumeration.

These changes will significantly affect the amount and the reliability of available data and threaten to blur our view of the housing problems of poor people. Among the items that will lose statistical reliability at the community level are how much people pay for rent and the value of homeowner property, both of which are valuable information for local governments. Also, because of the proposed changes, it will no longer be possible to determine how much people are paying for utilities in excess of their rent, a significant additional burden and concern in many parts of the country.

The recommendations of this Task Force are premised on the ability of state and local governments and the federal government to judge housing needs accurately and to act effectively to address those needs. At a time when the nation demands that housing programs be cost-effective and well-tuned, we must invest in getting the information necessary to do the job.

20,000 units of housing, including 5,000 constructed using self-help techniques.

- **In Baltimore, The Loading Dock, Inc., a nonprofit salvage operation, collects donated new and used building materials and sells them to low-income people and nonprofit developers at one third of their retail price. Donors receive tax write-offs for the goods.**
- **In Vermont and New Hampshire, the Northern Community Investment Corporation has sponsored over 400 units of affordable housing for low-income families and elderly renters in a depressed six-county rural area. A number of the group's 11 apartment projects not only created housing, but preserved listed historic landmarks.**
- **The Cleveland Housing Network has rehabilitated over 300 units using ingenious techniques that have reduced rehabilitation costs to less than $20,000 per unit. Reduced-rate financing for this effort has been provided by a consortium of corporate investors.**
- **The members of the Federation of Appalachian Housing Enterprises, Inc., a coalition of nonprofit builders serving communities in central Appalachia, have completed 623 new houses, 1,385 rehabs, 4,021 repairs and 7,880 weatherization projects. The groups have served 13,127 families with an average income of $4,800.**
- **In Mississippi, the Delta Housing Development Corporation has supervised the construction of 125 self-help housing units and has constructed 157 others. It has rehabilitated another 50 and weatherized 2,000 units.**
- **Neighborhood Housing Services (NHS) of Chicago serves nine neighborhoods housing over 220,000 people. It has directly managed $44 million in rehabilitating 8,181 units and originated loans totaling $9.5 million to more than 1,800 families, the majority of whom have low or very low incomes.**
- **In the rural San Joaquin Valley of California, Self-Help Enterprises, Inc., has assisted 3,180 families to build their own homes; rehabilitated 2,700 units; weatherized over 10,000 houses; and provided technical assistance to over 90 small rural community projects to improve water and sewer systems.**

II. New Sources of Capital and a New Institution For Low-Income Housing

RECOMMENDATION: The federal government should support benevolent loan funds and community development banks and should create a new national corporation to support local housing delivery systems.

The cost of financing is a major part of the cost of housing, whether rental or homeownership. As interest rates are lowered, housing becomes more affordable.

Efforts to lower interest rates on low-income housing have been largely a function of government, especially the federal government, through insurance guarantees and subsidies. More is needed.

The Task Force has searched for new ways of drawing private funds and the private banking system into financing housing for low-income families. It proposes a program that, with a modest standby of federal funds, could release substantial private funds to finance low-income housing at rates of 6 percent or less. It also proposes seed capital support for five demonstration community development banks. To develop these new sources of capital and to further HOP initiatives, the Task Force recommends creation of a national institution to advance local housing delivery systems.

RECOMMENDATION: The federal government should provide standby support to "Benevolent Lending."

There is a promising new source of funds for financing housing at low rates to families with very low incomes. It is called "Benevolent Lending." Under this program, individuals, corporations, churches, foundations and others are encouraged to lend funds at rates as low as 3 percent to finance low-income housing. The early success of Benevolent Lending programs indicates that a very large flow of funds can be developed if the system can be made safe and simple.

The underlying appeal of this approach is that the investors can per-

[illegible]

than $100 billion in five years, and with a huge market among non-givers to perform a charitable act and get their money back, it seems reasonable to project growth of Benevolent Loan Funds (BLFs) to a potential in excess of $2 billion a year by 1992.

Benevolent Lending is an attractive concept for local promotion through business, professional and religious groups. To date, for example, churches in Baltimore have invested from their own funds more than $1 million in the Enterprise Loan Fund, and the Home Builders of Maryland have pledged $1 million from their members. This has been accomplished in less than two years, without aggressive marketing or promotion.

But Benevolent Lending needs help from the federal government to become a successful national effort. The deposits are for a short term, but loans for low-income housing must be available for 20 to 25 years. So the local financial institutions that will hold BLF accounts need protection against abrupt and extensive withdrawal from these accounts.

It is clearly in the interest of the federal government to resolve this problem. Every dollar that is available at low rates through Benevolent Loan Funds is adding a non-federal dollar for housing the poor. Here is how the Task Force envisions a national Benevolent Lending system would work:

Individuals would make minimum deposits of $500 or more for one year or more in designated BLFs in banks and savings and loans. Accounts would be insured up to $100,000 by our federal deposit insurance institutions, as are regular deposits. The depositor would receive a dividend as low as 3 percent, with the assurance that the funds would be used for financing rehabilitation or construction of low-income housing in the local community. Higher rates of interest might be offered on a sliding scale, up to a minimum of 6 percent, for longer-term deposits.

The depository institution would make loans available to low-income housing developers and low-income buyers at its cost of funds (3 percent) form a charitable act by lending their funds to help the poor, receive a modest return, and get their money back when they need it.

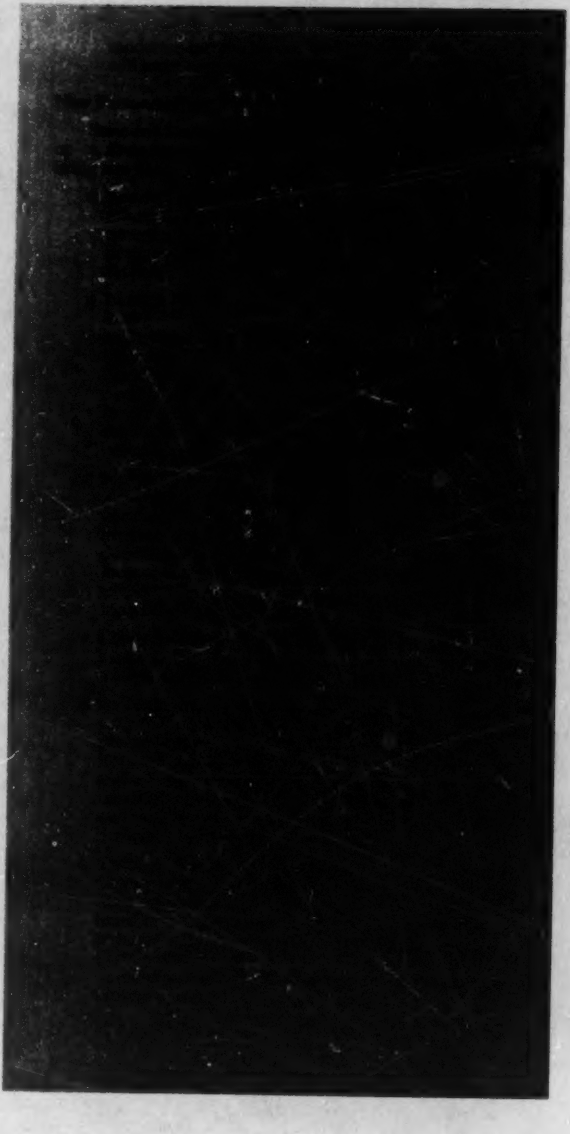
Jubilee Housing, a nonprofit neighborhood housing corporation in Washington, D.C., has raised over $2 million from 400 lenders at an average rate of 2.5 percent by soliciting funds at "whatever rate you choose between 0 percent and 6 percent." The program was refined by The Enterprise Foundation, in cooperation with a large savings and loan in Baltimore. Under this plan, sums as small as $500 can be deposited at 3 percent interest, with right of withdrawal at the end of the year. An associated plan managed by the Foundation pays the interest rate selected by the lender. Together, these plans have drawn commitments for over $4.5 million at an average rate of 3 percent in less than two years.

In another program, the Institute for Community Economics has received $4.5 million in deposits for its national revolving loan fund, which has financed developments by over 25 community groups, largely for low-income housing. The 29 members of the National Association of Community Loan Funds have received loans and deposits of just under $30 million.

The annual flow of funds in charitable contributions in America is very large and growing. In 1986, it exceeded $81.5 billion—up by 172 percent from $30 billion 10 years earlier. That included $4.5 billion by corporations, $5 billion by foundations and $72 billion by individuals. The total volume of giving has increased every year since record-reporting in 1955. It is a tremendous financial force.

Experience suggests that many individuals now making charitable contributions would provide additional funds at a low rate of return if they knew they were helping to house the poor and could receive the money back when needed. Also, there are many who contribute little or nothing to charity (40 million taxpayers in 1985 reported no contributions.). They are candidates to make such loans.

With charitable giving increasing at a rate that will bring it to a total of more



plus an agreed percentage (perhaps 2 percent to 2.5 percent) for actual administrative costs.

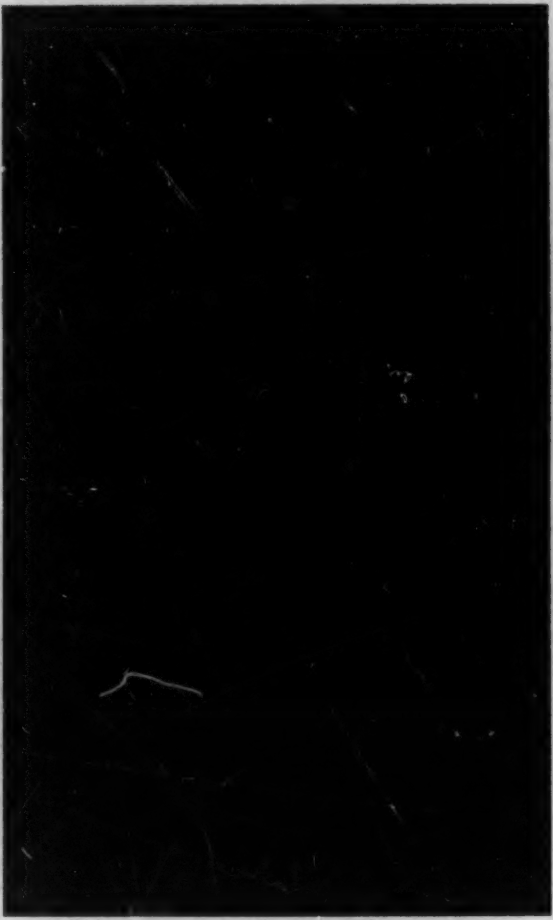
Risk to depositors is substantially eliminated by federal deposit insurance. Further, mortgages made from the funds should be insured by the FHA, thus reducing risk to the financial institutions that make the loans. Congress should instruct HUD to develop FHA underwriting standards and processes that are appropriate to the needs of the program.

To cover potential problems, BLF institutions would set aside appropriate reserves, reducing the risk that withdrawals might outstrip deposits. Should the low-cost deposits be withdrawn, so that even after reserves they do not cover the outstanding BLF loans, the U.S. Treasury would fund the institution's shortfall at the low-deposit rate until deposits matched the loans outstanding. Standby authority of $500 million would be required to make this an effective national program.

While federal standby support would be important to expanding the network of Benevolent Loan Funds, technical assistance in establishing and marketing the funds locally is also important. The Housing Opportunity Corporation of America, whose establishment is recommended later in this section, would help local institutions set up and market BLFs.

There would be no additional loss of revenues to the Treasury, since charitable deductions would not be allowed for the interest foregone by those participating in Benevolent Lending. However, there is an important complementary mechanism for encouraging deposits in BLFs that would involve a tax deduction. It warrants careful consideration.

Tax policy allows deduction of interest paid on home mortgages—a subsidy that is particularly important in enabling home purchase by middle- and upper-income people. The same policy could be used to substantially reduce the cost of home purchase by low-income families. An individual would make a deposit in a Benevolent Loan Fund at 0 percent interest for a term of at least 15 years, with the funds



to be used for mortgages at a very low interest rate (2 percent to 2.5 percent) for a low-income purchaser. The depositor would be entitled to the federal income tax interest deduction for which the low-income person would be eligible but could not use. The deduction would be set at the average interest rate for Treasury Bills. This would be a simple procedure administratively and would be equitable in light of existing tax policy.

RECOMMENDATION: The federal government should promote community development banks.

Banks and savings institutions are vitally important to community-based low-income housing efforts. However, with deregulation and other market forces changing the banking environment dramatically, many financial institutions appear more wary than ever of investing in the development or rehabilitation of low-income housing.

Community development banks—lending institutions dedicated to revitalizing their communities by investing in them—are a promising way to bring more private capital into low-income housing. These institutions have taken several forms. They include traditional banks whose activities are targeted to the credit needs of one neighborhood, and bank-sponsored community development corporations (CDCs) that not only finance low-income housing but also become directly involved in carrying out development.

The shining star of community development banks is the South Shore Bank of Chicago, which has concentrated on a single neighborhood of about 80,000 residents on the city's South Side. By using targeted financing, stimulating the creation of neighborhood renovators, undertaking its own development through subsidiaries, and linking counseling, education and employment programs

Before and after: through volunteer labor and both public and private financing, this house was made fit and affordable for low-income families in Oakland, California.

with development, the bank has sparked an incredible comeback of a neighborhood that most people had written off. The bank has made more than $92 million in mortgage and development loans and financed renovation of 4,800 apartment units. All of this was done without subsidies. In 1986 it made a net profit of $1.2 million.

An important aspect of the South Shore Bank story is the work of its nonprofit and for-profit housing subsidiaries. Using state and federal funds, private foundation grants and other money, these two subsidiaries have invested almost $55 million in rehabilitating over 1,100 units in the community's most deteriorated buildings. This has helped create a more stable and secure environment for market-rate investment, thus encouraging the development of almost five unsubsidized units for every subsidized unit.

To help ensure that similar efforts get underway in other communities, the Task Force recommends creation of a major national demonstration program based on the South Shore Bank experience. The new national institution, whose establishment is recommended in the following subsection, should invest adequate start-up capital, up to $5 million per institution, in each of five demonstration community development banks. After this initial investment, coupled with technical advice based on the South Shore model, the community development banks would be expected to be self-supporting and operate on a sound financial basis. The invested federal funds would be repaid and used for further demonstrations elsewhere.

RECOMMENDATION: The federal government should create a national corporation to support the new housing delivery system.

By leveraging federal housing aid through the Housing Opportunity Program, the new delivery system will become firmly rooted. However, more is needed if it is to flourish and spread.

The successful experience of state and local governments must be spotlighted so that others will learn. The expertise and ingenuity of successful for-profit and nonprofit developers must be shared with newer groups to help build capacity where it does not now exist. Innovative building techniques and financing mechanisms must be encouraged and replicated. And the nation must be kept apprised of the progress and capability of the new system, so that adjustments can be made to make it realize its full potential.

To support and advance the new delivery system, the Task Force recommends establishment of the "Housing Opportunity Corporation of America" (HOCA). HOCA should be a nonprofit organization, guided by a board of citizens with outstanding national reputations in the fields of development, finance and other areas related to the delivery of low-income housing. The new institution should be supported by funds raised by the private sector and an allocation from the federal government of up to $5 million a year for five years. In addition, HOCA should receive a one-time $25 million appropriation to establish five demonstration community development banks.

HOCA will be the entrepreneurial force for spreading the wave of new initiatives by state and local governments and private for-profit and nonprofit institutions; for stimulating the growth of Benevolent Loan Funds through the banking system; and for providing seed capital to enable the launching of at least five demonstration community development banks. It also will serve as an information center on local initiatives and will report to Congress and the President on the new housing delivery system—its growth, successes and obstacles experienced.

The functions of the Housing Opportunity Corporation of America are intended to be distinct from and complementary to those of the Neighborhood Reinvestment Corporation. The Neighborhood Reinvestment Corporation takes a comprehensive approach to the manifold resources and remedies needed to address neighborhood problems—housing, infrastructure, social services and economic development. Certainly HOP funds and programs and the support provided by HOCA can assist in such efforts. But while the Neighborhood Reinvestment Corporation's emphasis is on the neighborhood, HOCA's focus will be on new ways of delivering housing nationwide through promotion of local initiatives, Benevolent Loan Funds and community development banks, education and marketing.

Throughout this report, the Task Force stresses the need to make a variety of tools and resources available to state and local governments in order to meet housing needs. The Neighborhood Reinvestment Corporation and the Housing Opportunity Corporation of America should be viewed as two such resources, among the many that are needed. ■

III. The Nation's Existing Low-Income Housing Stock

RECOMMENDATION: Federal, state and local housing efforts must place greater emphasis on preserving and improving existing low-income housing.

Since 1975, 4.5 million dwelling units affordable to low-income families have been lost, many due to decay and demolition.

The Task Force is recommending an ambitious strategy to increase the supply of fit and affordable housing for low-income people. This means substantial new construction. But the strategy cannot succeed if a significant portion of the existing, aging stock of low-income housing is lost.

Experience demonstrates that it is far more economical to keep existing units in decent condition than to build new housing for the poor. Moderate rehabilitation of low-income units typically costs $7,500 to $20,000 per unit in most localities, compared to $40,000 or more for new construction. To lose large numbers of existing units is to put housing efforts on a treadmill that will exhaust both the nation's pocketbook and its will to provide fit and affordable housing for all.

Although housing preservation is extremely important as a matter of fiscal responsibility, it is much more than that. Preservation strategies also contribute to strengthening neighborhoods. They enable existing renters and homeowners to remain in their communities and maintain established family and cultural ties; they help retain the character of a neighborhood; and they do much to improve community image, confidence and reinvestment.

In examining the need to preserve existing stock, the Task Force focused on two major issues. The first, which has had a high profile, is maintaining the supply of existing federally assisted housing. Thousands of units across the country may be lost to use by low-income people in the next few years if current federal restrictions and subsidy contracts expire. This is a serious, pressing problem that demands immediate attention. The Task Force makes a number of detailed recommendations to address the matter.

There is, however, another quieter housing preservation issue that could be even more damaging in the long run if not addressed soon: how to maintain the millions of privately owned, unsubsidized dwellings that the vast majority of poor people call home.

These units are the backbone of the nation's low-income housing stock. They are typically in small buildings owned by landlords who do not own many units and who do not respond well to big governmental programs with red tape. It is often impossible to maintain and renovate these units while retaining them for low-income use because poor tenants cannot afford increased rents to cover the costs involved. The Task Force believes more attention must be focused on this issue and recommends ways to use the Housing Opportunity Program to preserve the privately owned, unsubsidized stock.

RECOMMENDATION: The federal government must take immediate steps to maintain the supply of federally assisted housing.

With the widening gap between the available supply of low-cost housing and the number of households in need, preservation of privately owned, federally assisted housing must assume a top priority in our national housing agenda. This valuable asset is threatened in two ways: by the early withdrawal of housing from federal programs through the advance payment of assisted mortgages, and by the expiration of rental subsidy contracts.

Beginning a quarter century ago, HUD mortgage subsidy programs made mortgage insurance available on riskier properties and below-market interest rate loans. To these subsidies were added substantial tax benefits to attract equity capital. These HUD programs resulted in the production of over 600,000 units of housing from 1963 through 1976, with another 117,000 units developed with financing by state agencies but without HUD mortgage insurance. Similar FmHA programs have produced 388,000 lower-income rental units that are now currently available in rural areas.

By contract and regulations, these programs limited rents and profits and restricted occupany in the subsidized projects. HUD regulations permitted an owner to remove the housing from low- and moderate-income use after 20 years, through early payment of the federally insured mortgage and cancellation of the regulatory agreement. In the rural counterpart to the HUD programs, no minimum time for low-income use was stipulated until 1979, when a 20-year period was directed for future developments.

The 20-year anniversary and the attendant opportunity for owners to exit the program are upon us. During the next five years, 301,461 HUD-assisted housing units will become eligible for mortgage prepayment. Mortgages on at least 55 such projects already have been terminated. A moratorium on prepayments of FmHA-assisted mortgages was imposed to forestall the loss of rural housing. Owners of 275,000 rural units have the legal right to withdraw from the FmHA program once the moratorium is lifted.

Mortgage prepayments are only part of the problem. Between 1988 and 1993, approximately 864,000 tenant- and project-based rental subsidy contracts will expire or be subject to termination, along with the rental subsidies attached to 131,000 units of the older HUD-assisted stock. More than half of these units are seriously threatened, since the initial 15-year commitments made under the HUD Section 8 program will be expiring. Unless Congress votes to appropriate new funds, tenants currently receiving this Section 8 assistance will lose it.

Two high-level commissions have undertaken detailed studies of the problem, including analyses of the various types of projects that are likely to prepay or are in jeopardy of default. The designing of precise remedies should take into account these studies. The Task Force believes, however, that certain general principles and approaches ought to govern policy toward the inventory of assisted projects.

- The federal government must be prepared to renew project-based and tenant-based subsidy contracts. Continuation of subsidies for assisted projects is necessary if defaults are to be avoided and low-income tenancies continued. For tenants currently receiving Section 8 assistance, the expiration of subsidies would mean either eviction or substantial increases in housing costs.
- The cost of keeping assisted projects in the inventory will be substantial;

the cost of failing to do so would be greater. The Office of Management and Budget estimates that interest reduction subsidies on HUD-assisted projects currently average $1,185 per year per unit. Current rental subsidies cost an additional $3,500 per unit annually. The respective costs for rural projects are less. To these costs must be added necessary rehabilitation or maintenance work. If these units must be replaced, however, the construction or rehabilitation of new units would cost between $40,000 and $100,000 per unit, and rent subsidies would range from $6,000 to $8,000 annually. Preservation is clearly the preferred course.

- Budget practices grossly overstate the cost of extending existing subsidy contracts. In its budget submitted for fiscal year 1989, HUD projects that in fiscal 1991 $8.5 billion of budget authority will be required to extend, for five years, subsidy commitments on nearly 300,000 Section 8 and housing voucher units. However, the actual monies expended by the government for these units, if they are retained in subsidy, would only increase by an inflation factor over current annual levels. Thus, retention of these Section 8 units for low-income tenants does not mean greater expenditures on an annual basis, but only that more funds must be appropriated to permit currently assisted units to continue to receive assistance.

"Sweat equity" helps low-income families help themselves into decent, affordable housing while building pride and job skills.

- A balance must be struck between the interests of the owners of assisted projects entitled to mortgage prepayment and the tenants in those projects. Solutions that would abrogate owners' contractual right to withdraw from the assisted program raise legal issues and may chill the private sector's willingness to participate in future housing initiatives. Responses that fail to adequately protect tenants will mean massive relocation and hardship for poor families and the elderly. The federal government must be prepared, through direct assistance and a preservation-oriented tax policy, to provide both means and incentives for retaining the assisted stock. State and local governments, with their closer ties to the private sector and familiarity with local housing needs and markets, can design and implement solutions. The nonprofit sector can make available alternative ownership structures that will dedicate these projects to long-term low-income use.

RECOMMENDATION: State and local governments should use HOP as an important tool in efforts to preserve privately owned, unsubsidized low-income housing.

Almost three out of every four poor families receive no assistance from federal government housing programs. They typically are renters who live in privately owned houses or small apartment buildings. In 1983, 80 percent of all renter families with incomes below $10,000 lived in buildings with fewer than 20 units; 60 percent lived in buildings with four units or less or in single-family homes.

This supply of privately owned, unsubsidized low-income housing has not been the focus of major federal housing programs in the past. The Task Force acknowledges the importance of this resource in achieving the goal of fit and affordable housing for all Americans by the year 2000.

There is a growing body of experience, particularly at the local level, that can guide new efforts to preserve existing housing stock. For example, the Neighborhood Reinvestment Corporation has developed a special program aimed at renovating smaller, declining apartment buildings. Combining training for landlords, financing and management assistance and small grants, the program is showing promising results in several communities.

Some local governments have undertaken innovative programs targeted to maintaining existing, privately owned low-income housing. In Pittsburgh, the city made rehabilitation loans to landlords who owned small buildings and rented to low-income citizens. These loans were modest, averaging only $7,500; they covered no more than half the total rehabilitation cost, with the owner or conventional financing sources providing the rest. The city's loans could be forgiven over the period the owner agreed to keep rents affordable to the poor, usually five to ten years. This program led to the renovation of over 1,400 units.

From these experiences and others, several important lessons emerge that can guide new efforts to preserve existing, privately owned stock.

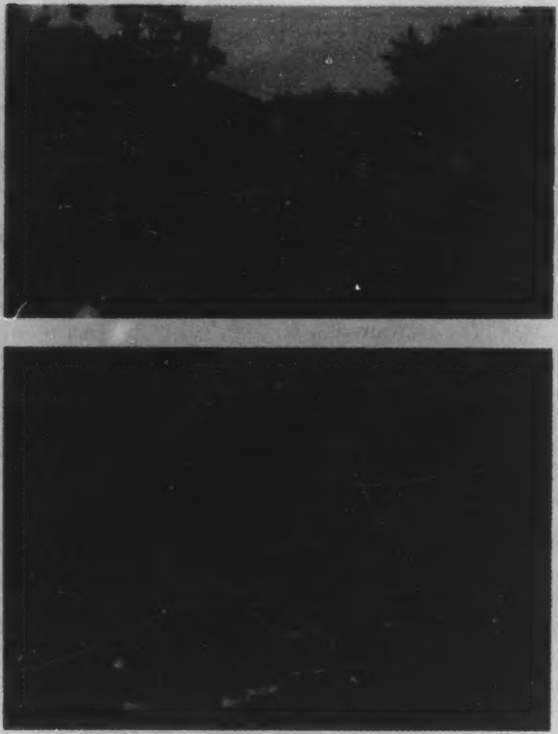
First, public investment clearly is needed to make the economics of renovation and maintenance work. Poor households cannot afford high enough rents or mortgage payments to cover these costs. Most cash flow must go to existing debt service, taxes, insurance, utilities and management costs.

Second, while public investment is critical, programs can and should be structured to bring in private funding, recycle government money and keep landlords closely involved in management and cost control. Government grants and loans should cover only a portion of renovation costs. With a landlord's or a financial institution's money on the line, the private sector is more likely to maintain an active interest in the project. And recycling of funds can be encouraged in several ways, such as by making loans at a very low interest rate, or through second mortgages that do not accrue interest and are repaid only at time of sale.

Finally, any program focused on privately owned stock must be decentralized and free of red tape, or small landlords and homeowners will not participate. Grant and loan terms and forms must be simple, program officials must be accessible, and inspections and compliance reviews fair and firm, but not intimidating.

The Task Force believes that the Housing Opportunity Program can be a very effective vehicle to address the critical issue of preserving privately owned, unsubsidized low-income housing stock. It will give local governments flexibility to design programs that respond to distinctive local needs and take into account the precepts discussed above—government incentives, private commitment and streamlined administration. The federal government, in allocating HOP funds, should ensure that the issue of privately owned, low-income housing is evaluated at the local level and that programs are put in place to address it. Moreover, the changes in federal tax policy discussed in Recommendation V can be instrumental in preserving the existing low-income housing stock. ■

Fit and affordable permanent housing can provide an alternative to putting families like this one in a hotel, at a cost to the government of $2,000 a month.



Two faces of public housing: while public housing is the source of some of the nation's most publicized low-income housing failures, the large majority of the 3,000 local housing authorities provide decent housing in a good environment for more than 1.4 million families.

IV. Public Housing

RECOMMENDATION: The federal government should support the restoration and revitalization of public housing.

Nowhere is the dilemma of federally assisted low-income housing more clearly demonstrated than in the public housing program. More than 3,000 local authorities house more than 1.4 million families. This is the nation's greatest low-income housing resource. It is permanently dedicated to public use; it serves the elderly, large families and the poorest of the poor; for the most part, it provides decent, cost-effective housing.

Public housing is also the source of some of the nation's most visible low-income housing failures. Some projects in some cities are beset by crime, fear and violence. Others are badly managed and poorly maintained. Still others reflect the discriminatory attitudes of the localities that built them and constitute some of the nation's most intractably segregated housing. Unfortunately, it is these projects, not the successes, that characterize the program in the minds of much of the public.

The Task Force recognizes that HUD, Congress and many housing authorities have acted to remedy the failures of the past and to avoid repeating them. High-rise family projects are no longer being built. Congress has begun, albeit with an unsteady supply of funding, the comprehensive modernization of public housing projects. Modernization programs have led to the reconstruction and, in a few instances, the demolition of overly dense, troubled projects. Housing authorities are developing smaller, scattered-site projects and are acquiring individual units for large families. In some areas, local governments, community groups and the courts are making progress in reducing patterns of discrimination.

While the progress has been substantial, it is clearly not sufficient. The Task Force recommends a series of measures intended to combat deterioration, discrimination and intolerable conditions in public housing projects, to preserve the public housing inventory, to support and improve housing authority management, and to increase state and local accountability. The federal government must get its own housing in order.

RECOMMENDATION: HUD must identify and remedy the most seriously troubled projects.

The very worst housing projects must be targeted for immediate action. With the extensive information it has developed about public housing projects and authorities, HUD should identify the most seriously troubled projects. Working with the state or local government and the local housing authority, HUD should promptly produce a plan to address the needs of each of those projects. Every possible option should be considered—from rehabilitation to reducing densities to changing tenancy to demolition.

Congress, then, must provide the necessary funds, and HUD and housing authorities must act. Federal funds will be needed (a) for modernization, (b) for rental assistance to meet the needs of displaced tenants and enable the residents of segregated projects to find housing elsewhere and (c) to replace lost units. Particular attention should be given to large, high-rise projects that currently house families with children. Immediate rental assistance should be provided to enable these families to find alternate units; if alternatives are not reasonably available, housing authorities should be required to acquire or construct housing suitable for such families.

In order to ensure success, local government must participate in identifying and carrying out solutions. The locality should be prepared to provide law enforcement resources, housing and community development assistance, relocation aid and social services. It should support effective housing authorities and replace unsuccessful ones. To the extent that there is no local government with the authority or capacity to act, the state government should be called upon to do so.

In those few places where neither government will act, HUD must consider federal control or judicial receivership. While receivership amounts to an admission of administrative failure, it may be, in some instances, the only way to bring all parties and all resources to the table.

The Task Force recognizes that the foregoing measures are extraordinary and may divert resources and attention from other pressing needs of public housing. The Task Force finds, however, that the persistence of intolerable conditions in even a very few projects blights not only the lives of the people who live in them and the neighborhoods in which they fester, but the entire effort to house low-income people in the United States.

RECOMMENDATION: The federal government must commit to completing modernization of the public housing inventory.

Public housing projects must be restored and upgraded if they are to continue to furnish satisfactory low-income housing into the next century. The overwhelming majority of the inventory can be preserved through reasonable expenditures for modernization and maintenance.

At the time of the Task Force's deliberations, HUD had received but had not yet published an analysis of the cost of modernizing the public housing inventory. These costs, estimated at upwards of $10 billion, can be staged over a period of years. While a large sum, such modernization expenditures constitute a cost-effective approach to the long-term provision of low-income housing, because they will preserve this inventory and keep it permanently for low-income use.

The Task Force is under no illusions about the complexity and expense of restoring the public housing inventory. But it is equally certain that the effort is both necessary and justified. Congress and HUD must commit themselves to the full long-term modernization of the public housing inventory and develop a schedule to achieve that end. Congress should appropriate the necessary funds, on a timetable consistent with federal budget priorities.

RECOMMENDATION: The federal government, in partnership with state and local governments, must take steps to strengthen housing authority management.

Throughout this report, the Task Force has recommended that increased reliance be placed on state and local governments for the delivery and management of low-income housing. The public housing program represents a 50-year experiment in federal/local partnership to deliver such housing, and it offers some valuable lessons. The successes in the public housing program show that this relationship can work. Its problems demonstrate the dangers that must be avoided.

Some local housing authorities, for example, have failed to manage projects efficiently and responsively. State and local governments too often have lacked the desire or the legal authority to correct housing authority failures. HUD and Congress have compounded these problems by failing to provide a predictable and reasonable level of operating support. Federal laws often have imposed rigid, costly requirements upon authorities, without providing the funding needed to meet them. HUD has lacked both the capacity and the will to deal with seriously nonperforming authorities.

The Task Force recommends that the current Performance Funding System for providing operating subsidies be revised to reflect more accurately the needs of each authority. The revisions must provide financial incentives for efficient management and assure that the basic needs of all well-managed projects—including security and safety—can be met out of available funds.

FREQUENT STOPS

In many cities, poor families who cannot pay the rent are put out on the street—while laws provide for their pets to be taken to shelters until their owners find a home.

As federal efforts increase, so must state and local responsibility. The proposed Housing Opportunity Program calls upon these governments to take a comprehensive view of housing needs and resources. Public housing must be taken into account in the HOP process and must be provided the necessary supervision, services and support.

HUD must increase its capacity and willingness to deal with authorities that cannot or will not manage their housing properly, and with state or local governments that do not correct them. HUD must be able to correct and, if necessary, replace nonperforming authorities. This is a matter of responsibility to both tenants and taxpayers.

RECOMMENDATION: HUD and local authorities should continue efforts to involve tenants in project management.

The Task Force commends the efforts that HUD and local housing authorities have carried out to promote greater tenant involvement in project management. As residents are given increased roles in identifying project needs, developing tenant selection policies and setting priorities for improvements, their stake in the success of projects should grow and the soundness of those decisions should improve.

RECOMMENDATION: HUD and local housing authorities should explore carefully special situations for homeownership and sales of projects to tenants.

The unique virtue of public housing is that it provides a permanent supply of affordable low-income housing. The sale of projects eliminates a resource we cannot afford to lose. The Task Force recommends that sale of public housing projects or units be considered in only two circumstances.

The first situation would be where excess capacity or the availability of units in the local market makes low-income homeownership programs using public housing feasible. Housing authorities have great potential as administrators of such programs. They can identify likely homeowner families among their tenants and provide the necessary support and counseling to make programs successful. If there is a sufficient supply of long-term housing stock available to low-income households, housing authorities may look to their own inventories as a resource for cooperatives, condominiums or individual units to be sold to tenants. Where local market conditions make it possible to acquire single-family housing at reasonable cost, authorities can purchase these homes for resale to low-income buyers.

The second circumstance in which tenant or other private ownership may be appropriate is when the local housing authority cannot or will not operate a satisfactory program. In such a situation, when HUD is called upon to perform management functions for the local authority or where a court is operating an authority in receivership, it may consider the possibility of selling individual projects to tenant groups or private owners, provided the terms of sale assure that the stock will remain permanently available to low-income households.

RECOMMENDATION: The federal government should allow public housing authorities to produce housing, within budgetary constraints.

The Task Force recommends that competent housing authorities continue to be allowed to develop or acquire new public housing projects where needed, and that Congress provide a level of funding consistent with its budgetary concerns.

Despite its problems, the public housing program has proven its long-term efficiency as a producer of housing that is permanently dedicated to low-income use. The average public housing unit today requires annual operating subsidies of $1,200. Even when modernization and original capital costs are taken into account, these costs compare favorably with the level of expenditure that will be needed to preserve the other components of the assisted housing inventory. ■

V. Tax Policy and Low-Income Housing

RECOMMENDATION: While preserving the essential reforms of the Tax Reform Act of 1986, the federal government should use tax policy to support low-income housing.

The Task Force's recommendations to increase the supply of lower-income housing require favorable tax policy if they are to be effective. Although it is often not recognized as such, federal tax policy is a critical element in national housing policy. It affects the choice of whether to rent or to buy. It determines the relative attractiveness of housing as an investment compared to other types of real estate development—whether we build apartments, condominiums or shopping centers. It has a substantial impact on the proportion of real, after-tax income that people spend for housing. Sound tax policy complements other government policies affecting housing; unwise tax provisions frustrate housing policy.

Reflecting the great priority Americans give homeownership, the tax code allows the deduction of mortgage interest and property taxes, tax-free rollover of appreciated property and tax exemption on gains for homeowners over 55. This favorable treatment has played a major role in enabling the United States to become a nation of homeowners, and it contributes significantly to the accrued savings which Americans have in their homes.

Tax policy towards rental housing has been substantially less consistent and, more recently, far less supportive. The incentives provided by the 1981 Tax Act led to the highest levels of rental production in a decade, increasing apartment availability throughout the nation. With tax incentives virtually eliminated by the 1986 Tax Reform Act, rental production has dropped sharply. In 1987, little more than half the number of rental units went into construction than were started in each of the preceding two years. Permit statistics indicate the downward trend will continue.

Tax policies that disfavor rental housing adversely affect the supply of housing available to low- and moderate-income households. Renter median incomes are half those of owners; more than 60 percent of the nation's poverty households are renters. Current tax policies discourage the production of new units at rents that are affordable to moderate-income households without additional subsidy, or to the low-income households who receive government assistance. They force rents up and encourage condominium conversions.

With the exception of the public housing program (which itself depended upon tax-exempt financing), federal housing programs always have required substantial levels of tax incentives to attract private investors and provide a satisfactory return to owners. Tax-exempt financing and the low-income tax credit have been critical elements in the recent growth of state and local housing efforts that underlie the Task Force's major recommendations. While the Task Force expects that the HOP delivery system will be highly efficient in the use of federal funds, it emphasizes that HOP cannot achieve its objectives without some degree of favorable tax treatment.

Moreover, tax policies that encourage the production and preservation of rental housing offer substantial direct and indirect benefits to low-income renters, particularly when combined with effective targeting requirements. In addition to affordability, appropriate tax incentives can promote economic diversity in new and existing rental housing.

The challenge for Congress is to chart tax policy that respects reform, resists abuse and prevents waste, while providing reasonable incentives for production and preservation. The Task Force's recommendations are intended to strike such a balance. In addition, its recommendations concerning the low-income housing tax credit are intended to allow that incentive to realize its full potential.

The Task Force finds that the fundamental changes brought about by the 1986 Tax Reform Act can and should be preserved. Tax benefits should be restricted to rental projects serving lower-income households. In addition, Congress should prevent tax incentives from allowing taxpayers to escape liability entirely by providing that credits or losses may not reduce tax liability by more than 50 percent. With this basic protection, Congress can preserve tax reform while offering important incentives to the development and preservation of low- and moderate-income rental housing.

RECOMMENDATION: The federal government should expand the availability of tax-exempt financing for low-income rental housing.

In 1985, tax-exempt bonds financed an estimated 300,000 rental units, at least 60,000 of which were required to be set aside for families at 80 percent of area median income or below. State laws and market conditions actually produced far more substantial targeting than federal law required. In 1987, under the new tax code requirements, no more than a handful of projects received tax-exempt financing.

While steps must be taken to permit rental housing to take advantage of tax-exempt financing, the targeting standard established by Congress in the 1986 Act for tax-exempt bonds and the low-income housing tax credit should be retained. That is, at least 20 percent of the units in a project must be set aside for households at 50 percent of area median income or below, or 40 percent set aside for households at 60 percent of area median income or below. Used in this fashion, tax-exempt financing can enhance project feasibility and make possible the production of units that would not otherwise be built. It also encourages the development of economically integrated housing.

Bonds financing such housing should be redefined as public purpose bonds under the Internal Revenue Code. This would exempt interest on the bonds from the Alternative Minimum Tax, thereby lowering interest rates. In addition, it would remove the bonds from statewide caps on bond volume.

State or local authorities will be required to develop strategies for the use of tax-exempt bonds for rental housing as part of the Housing Opportunity Program process. Tax-exempt financing would be an integral element in the delivery of all housing assistance, and HOP funds, as well as rent support, would be used to assist rental projects, particularly mixed-income projects, in meeting the stringent targeting standards.

The Task Force further recommends an easing of the technical restrictions imposed on bonds by the 1986 Act. Issuers should be permitted to invest bond proceeds without having to rebate arbitrage profits to the Treasury Department, provided that the proceeds are actually applied to produce rental housing, excess earnings are applied to housing purposes and any temporary period for investments does not exceed 24 months.

For several years, Congress has authorized housing agencies to issue Mortgage Credit Certificates in lieu of mortgage revenue bonds for home buyers. Homeowners with such certificates receive a tax credit based upon interest payments, which has the effect of lowering their interest costs.

The Task Force recommends that a similar credit certificate program be authorized as an alternative to tax-exempt bonds for low- and moderate-income rental housing. This would permit a state or local housing finance agency to issue certificates to developers for use in connection with the conventional financing of low- and moderate-income rental housing. Conventional lenders would receive a tax credit equal to a portion of the interest rate on the loan (e.g., 2 percent), and project owners would pay the reduced rate. The tax credit would travel with the loan, so that originating lenders would have the choice of retaining the loans or selling them into the secondary markets. The credits would be refundable, to enable conventional lenders with net operating losses, primarily thrifts, to take advantage of them. Because the tax credit would have to produce a direct and equal reduction in interest costs to borrowers, the credit certificate alternative would respond to concerns over the efficiency of tax-exempt financing.

RECOMMENDATION: The federal government should provide favorable tax treatment for low-income housing.

By ending accelerated depreciation and lengthening depreciation lives, the 1986 Tax Act puts rental housing at a competitive disadvantage among real estate investments in attracting capital. The long-term effect will be reduced investment and higher rents. The Task Force recommends that limited incentives be restored to redress this imbalance, at least for housing in long-term, low-income use.

The Task Force recommends that qualifying low-income rental housing projects be given a depreciation life of 20 years, with straight-line treatment. Continuation of the passive loss limitation on non-cash or "paper" losses would prevent the use of these faster write-offs to shelter other income.

Further, the current prohibition on deductions for real cash losses on rental housing should be lifted for qualifying low-income projects. This limited exemption from the passive loss rule would not encourage infeasible projects but would recognize the significant chance of real cash losses in the development of low-income housing.

Rental housing qualifying for these benefits would be limited to projects that meet the current low-income targeting requirements for tax credit or tax-exempt financing. The Task Force intends that this housing continue to be available to low-income households throughout its useful life.

RECOMMENDATION: The federal government should improve and extend the low-income housing tax credit.

The low-income housing tax credit provisions of the 1986 Tax Act offer substantial potential for expanding the supply of available and affordable housing. The first year of operation of this program, however, has revealed a number of problems that limit its usefulness and decrease its efficiency. By remedy-ing these problems, while preserving its targeting to low-income households, Congress can give the taxpayer more value for the federal funds foregone and provide greater aid to lower-income families.

The Task Force recommends the following changes in the low-income tax credit program:

a. Eliminate the 1989 Sunset Date, Extending the Program Indefinitely. Providing adequate housing supply for the poor will be a long-term job, requiring production mechanisms to be available for the next decade. The low-income housing tax credit can provide the incentive to develop, renovate, preserve or set aside housing for low-income, assuming that HOP funds and rental assistance will be available to assure project feasibility.

This incentive is essential if we are to achieve our production goals within the budgetary limits contemplated by the Task Force. A tax credit that sunsets in 1989 just cannot do the job. Moreover, if the state agencies that administer the tax credit program are to operate it effectively, they must invest considerable time and resources in building their capacity. Similarly, private developers and nonprofit groups must learn how the program works and how to use it effectively. None of these participants can be expected to make a substantial investment in building capacity for a program that will terminate in less than two years.

b. Remove Penalties on the Use of Tax Credit With Tax-Exempt Financing and Other Federal Assistance Programs. Federal housing programs consistently have depended on a combination of direct subsidies and tax incentives. The tax credit statute limits the use of the tax credit with direct housing assistance. Both analysis and experience demonstrate that the low-income tax credit alone is not sufficient to induce the production of housing in the volume contemplated by the credit authorization. Allocating agencies should have the authority to provide tax credit to a project in the maximum permissible amount, regardless of what other form of assistance is used.

c. Provide Full Exemption from the Passive Loss Rule and the Alternative Minimum Tax for Low-Income Tax Credit Projects. The passive loss rule of the 1986 Tax Act limits the ability of investors to take advantage of low-income housing tax credits, substantially undermining their value. This rule denies low-income housing its traditional investment market, the so-called "accredited investors" under the securities laws. Instead, owners of tax credit projects are forced to find investors through costly public syndications or in a corporate market that is unfamiliar with and often highly suspicious of low-income housing. As a result, much of the benefit of the low-income tax credit is lost in transactional costs and in providing levels of return high enough to attract investors.

An additional effect of the passive loss rule is that it discourages mixed-income projects. Because they cannot take advantage of depreciation and tax losses, investors seek projects that generate the maximum amount of tax credit—projects that are 100 percent low-income housing.

The Task Force recommends exempting tax credit projects from the passive loss rule. This will enable tax credits to generate substantially greater benefits for housing and will promote the development of economically integrated projects.

d. Permit Low-Income Housing Tax Credits to Be Sold to Investors. Under current law, a nonprofit entity seeking to use low-income housing tax credits for a project must sell as much as 99 percent of the project to private investors, who then benefit from the credits. Such a sale involves substantial transactional costs and makes it more difficult to provide for the retention of the project for long-term use by low-income tenants.

The Task Force recommends that nonprofits and public agency owners of tax credit projects be permitted to sell the tax credits generated by such projects to investors, rather than selling the projects themselves. This will preserve the long-term use of the projects, while allowing the credits to generate direct monies for low-income housing.

e. Permit the Carryover of Tax Credit Authority and Its Reallocation Among States. Current law requires projects to be placed in service in the year in which tax credit is allocated. The development of multifamily housing is highly vulnerable to construction delays; low-income housing, in particular, is difficult to develop and finance. The rule against carryover creates unacceptable risks for investors and lenders, since a construction delay can result in the loss of all tax credit.

The Task Force recommends that when tax credit authority has been allocated to a specific project, it may be carried over so long as the project commences construction within a reasonable period of time. Credits not allocated to projects in the year of initial allotment, and credit authority allocated to projects not beginning construction within a reasonable time, should be reallocated to other states as an addition to those states' per capita limits.

f. Allow Greater Flexibility in Allocating Tax Credits. Owners should be allowed to allocate tax credits to investors in accordance with their capital contributions to a project.

g. Allow Greater Flexibility for Investors to Donate Interests. The Internal Revenue Code should permit investors in tax-credit projects to donate their interests to nonprofit organizations or governmental agencies, without receiving tax benefits but without incurring any tax liability. Advance commitments to donate such interests should be permitted.

RECOMMENDATION: The federal government should provide incentives for the donation of assisted housing to nonprofit organizations, low-income tenant cooperatives and public agencies.

The Task Force recommends that particular consideration be given to providing incentives for the donation of assisted projects to nonprofit organizations, low-income tenant cooperatives and public agencies that will maintain those properties for long-term low-income use. Specifically, owners should be permitted to donate assisted projects to nonprofit groups and public agencies without incurring tax liability. This corrects a situation that may arise under current law, under which substantial tax liability may arise as the result of the donation of a low-income project. ■

VI. The Gap Between Housing Costs and Income

RECOMMENDATION: The federal government should commit to an adequate rental assistance program to complement production and preservation efforts.

The most significant housing problem faced by low-income households is cost. As rents have grown and the supply of affordable units has decreased, declining real incomes have placed poor people in a housing cost squeeze.

Housing supply programs alone cannot meet the income needs of the poor. The ultimate solution to the income problems of low-income Americans lies in areas beyond housing. What is needed is jobs, education and health care coverage, as well as a rationalized, well-integrated social welfare system that makes specific provision for wide variations in housing costs and needs. However, the resolution of the housing

Living in an abandoned cinder block building, this youngster and his family are hidden from view of the surrounding high-rent areas of Key Largo, Florida.

problems facing low-income people cannot await a grand and permanent solution to the underlying problem of poverty.

The Housing Opportunity Program recommended by the Task Force, together with additional private financing and significant changes in tax policy, is intended to increase the supply of housing that is fit and affordable to poor people. But while increased production, renovation and preservation are essential, they are not sufficient. The reason is simple: even if the capital cost of producing housing could be reduced to zero for the more than 10 million renter households with annual incomes below $10,000 (something that is not contemplated nor reasonably attainable), a substantial proportion of those people still could not afford the irreducible minimum rent necessary to cover the cost of utilities, management, reasonable reserves for replacement and other required expenses. Direct rent assistance is a clear necessity.

The Task Force recommends that Congress commit to providing sufficient rent assistance so that by the end of the century, in combination with an increased supply of affordable housing, no household that seeks fit, livable and affordable housing will lack the opportunity to obtain it. The Task Force recommends the provision of 100,000 units of rental assistance over and above the Administration's request for fiscal year 1989—or an incremental increase of 200,000 households receiving rental assistance.

This assistance would make up the difference between a required tenant contribution and a reasonable rent level for decent housing in the community. To be eligible, tenants would have to be living in or move to units meeting housing quality standards. Priority would be given to households with incomes at or below the poverty level.

RECOMMENDATION: A more flexible definition of reasonable rent burden should be adopted.

Since 1982, tenants in assisted housing have been expected to pay 30 percent of their adjusted gross income for rent. This is a significant increase from the previous 25 percent standard. Yet it reflects the private market realities for most renters.

However, applying a single rent-to-income standard across the board to poverty-level households can produce serious inequities. A single person living alone, with an income toward the upper end of the eligible range, clearly can afford to pay a higher proportion of income for rent than a large family with children and an income at the lower end of the scale. Current law recognizes this by providing adjustments for families with minor children, but more should be done.

Accordingly, the Task Force recommends that Congress consider requiring a sliding scale of tenant payments based upon family size and income. Larger families with lower incomes would pay a smaller proportion of income; small, relatively better-off households would pay a larger proportion.

RECOMMENDATION: Rental assistance should be tied to federal housing quality standards.

Research and demonstration programs show that rental assistance or other housing allowances do not, by themselves, add to or improve the housing stock. However, the Task Force believes that a properly designed and administered rental assistance program can contribute to efforts to increase the supply of affordable housing. Such a program can assure owners of low-rent units that their real economic operating costs will be met by poor tenants. This can forestall disinvestment and help stabilize the supply. Moreover, supply-side strategies that aim to reduce the cost of housing to an affordable amount can be designed with a payment "floor"—the applicable rent level—that would ensure poor people's ability to pay at least irreducible direct costs.

Rental assistance must be predicated on the provision of decent housing. Failure to insist on standards can lead to subsidization of poor quality units. The subsidies then become nothing more than an income transfer program, with no positive effect on the housing supply.

State and local governments should be permitted, in conjunction with their HOP planning process, to couple rental assistance with direct efforts to increase and improve the existing supply of affordable housing. Absent adequate supply efforts, the increase in demand that assistance fosters can lead to cost inflation in tight markets, without offering any overall hope for improvement. ■

VII. Homeownership

RECOMMENDATION: The federal government should adopt a series of low-cost measures to expand opportunities for homeownership.

Homeownership is a fundamental American ideal. It provides financial and emotional security to families and promotes neighborhood stability. Owning one's home remains a primary goal for Americans of all backgrounds and ages. In recognition of this, the Task Force finds that increasing the opportunities for people to become homeowners and enabling lower-income owners to preserve and improve their homes must be central objectives of our national housing policy.

Today, increasing numbers of American families, most of them young, cannot afford to purchase a home. Down payment requirements and high carrying costs put ownership beyond the reach of many. High default rates and economic distress in certain regions have forced lenders to tighten underwriting standards and increase down payment requirements. These problems sometimes are exacerbated by state and local government actions that increase housing prices through growth restrictions, reduced infrastructure support and excessive impact fees and permit costs.

In order to restore homeownership opportunities for thousands of Americans, the Task Force recommends a series of measures to reduce down payment requirements and carrying costs. Mindful of the substantial preference already given to homeownership through tax policy and the provision of mortgage credit, the Task Force intends that the mechanisms for furnishing assistance to homeowners should (a) operate without substantial direct subsidy cost to the federal government, (b) focus primarily on first-time buyers, particularly those of low and moderate incomes and (c) contemplate the repayment or reduction of direct assistance, where feasible.

Homeownership helps define the American dream.

The Task Force further recommends that particular attention be devoted to enabling low-income families to buy homes and to assisting low-income owners in preserving and rehabilitating their dwellings. Government expenditures in support of low-income home purchase constitute a sound investment in families and communities. Rehabilitation assistance to low-income homeowners can address substandard housing conditions and contribute to neighborhood preservation efforts. The impact of these efforts can be substantially enhanced by steps that break down state and local barriers to development, steps the Task Force recommends be required as part of the HOP process.

RECOMMENDATION: The federal government should increase access to FHA mortgage insurance and the VA program.

Mortgages with low down payments are essential for an increasing number of home buyers, particularly first-time purchasers. Conventional lenders cannot and should not be expected to carry the risk burden of such loans; nor will private mortgage insurers fill the gap.

The programs of the Federal Housing Administration (FHA) have allowed first-time and lower-income buyers to overcome down payment obstacles and secure mortgage financing at favorable rates. Thus, in recent years nearly 60 percent of FHA buyers made down payments of 10 percent or less of a home's sales price, compared with as few as 9 percent of conventional buyers. FHA insurance gives lenders the security to make loans with low down payments; as insured loans, these are highly attractive to the secondary market, thus helping produce lower-interest rates.

However, FHA mortgage limits have not kept pace with increases in home prices in many areas. In addition, because FHA programs have not fully responded to innovations in financing techniques, FHA buyers are denied access to types of mortgages that could produce more favorable interest rates. Accordingly, the Task Force recommends a series of changes in the FHA programs. These changes should not have an adverse impact on the federal budget, because the basic FHA homeownership program continues to make money for the federal government.

a. Expand the Availability of Adjustable-Rate Mortgages. Adjustable-rate mortgages (ARMs) can offer interest rates from 2 to 3 percent below fixed-rate instruments. They have, as a result, become increasingly popular, accounting for nearly half of mortgage originations in 1987, and even more in other years. At the same time, the continued availability of fixed-rate mortgages gives home buyers a meaningful choice between greater purchasing power and higher risk on the one hand, and long-term security on the other. Legal restrictions, however, have limited the use of ARMs in the FHA program.

The Task Force recommends that Congress make ARMs fully available to FHA borrowers:

- FHA should be authorized to insure ARMs under which interest rates may rise 2 percent a year, provided that over the life of a loan, the total increase may not exceed 5 percent. In addition, FHA's existing authority to insure ARMs whose rates rise no more than 1 percent per year would be continued. Under current market conditions, the 2 percent ARM may achieve an interest rate 1 percent or more below the 1 percent ARM. By underwriting at the lower initial rate, FHA could provide buyers with the option to obtain even more favorable mortgage rates and thus bring home purchase within the range of thousands of additional households.
- The statutory limit on the aggregate number of ARM loans that FHA may insure in a year should be eliminated. Although the 1987 Housing Act raised this limit from 10 to 30 percent of the previous year's activity, this is still significantly below the share of the conventional market that ARMs constitute. In fact, since 1982 when activity was first measured, ARMs have never comprised less than 30 percent of total originations on an annual basis. FHA purchasers should have the same freedom in selecting favorable mortgage forms as conventional home buyers.
- HUD should be required to monitor ARM program costs and losses to see whether they continue at acceptable levels. While conventional market experience suggests that most home buyers can realize the benefits of ARM financing without unacceptable

default risks, we cannot be certain the FHA experience will be similar because of the lower FHA down payment requirement.

- HUD should determine whether measures are needed to protect buyers in the event of maximum increases in ARM rates. Congress and HUD should consider making the temporary mortgage assistance payments program available to protect against resultant defaults. Such a remedy would be comparable to work and forbearance procedures on conventional loans.

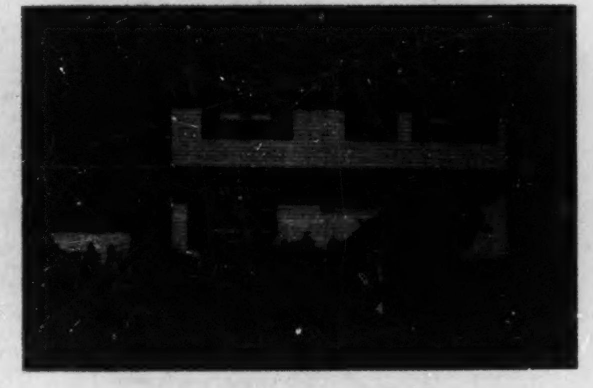
b. Raise Mortgage Limits. The high-cost area limits for FHA mortgages recently enacted by Congress are already substantially below the median sales prices of new or existing homes in many places. This means potential first-time buyers in many areas simply cannot take advantage of the FHA program.

In one fifth of all metropolitan areas, including five of the top ten, the new maximum FHA mortgage limit of $101,250 is below the cost of the median-priced home. Under preliminary HUD regulations, more than 40 areas will be at the ceiling—indicating that many would be higher but for the cap. In fact, the median price of all new homes sold in December 1987 exceeded the FHA limit by $7,000. Thus, while the local indexing of FHA limits was intended to make nationwide increases unnecessary, the cap of $101,250 on all FHA mortgages continues to frustrate this intent.

The Task Force believes the community should be the focus for the determination of housing needs and the delivery of housing assistance. As under current law, FHA mortgage limits should be established at 95 percent of the median home sales price in the county or the local Metropolitan Statistical Area, whichever is higher, but without the $101,250 limit. Limits would be computed separately for new homes and existing homes; limits for multiple-unit dwellings would receive corresponding adjustments. In order to avoid hardship from the shift to separate limits for new and existing homes, mortgage limits for an area would not drop below those in effect when the proposed changes were enacted.

c. Reduce FHA Down Payments. High down payment requirements probably constitute the most significant obstacle to homeownership. FHA mortgages can overcome this obstacle, but FHA down payment requirements have not responded to recent home price increases. The Task Force recommends that FHA buyers be permitted to secure financing of up to 97 percent of the first $50,000 of a home's value, as opposed to $25,000 under current law, and 95 percent of the value in excess of $50,000.

d. Update the VA Program. While recent Congressional action has improved the loan guarantee program of the Veterans Administration (VA), further modernization—such as use of adjustable-rate mortgages—is necessary to make the program fully responsive to market developments. Even without improvements, however, the Task Force believes that the changes recommended for the FHA programs should be useful to veterans, as they will be to all other potential home buyers.



Purchased in 1973 for $47,500 and virtually unchanged since then, this house in Levittown, New York, was appraised at $250,000 in 1987.

RECOMMENDATION: The federal government should take steps to ease down payment difficulties for first-time home buyers by allowing the use of IRA and other self-funded benefit plan monies.

Individual Retirement Accounts (IRAs) allow people to make tax-free investments as savings toward their retirement. The law permits a broad range of investment vehicles for IRAs—but not one's own home. This is neither sensible nor fair. To most Americans, a house is their most significant, costly and valuable investment. If a family can invest its IRA in gold or soybean futures, why not in its home?

The Task Force recommends that first-time buyers be permitted to invest IRA, 401(k) and other self-funded benefit plan monies in the acquisition of a home, in the same manner they would invest in any other asset. For this purpose, the term "first-time home buyer" should be defined broadly to include all persons not owning homes at the time of purchase.

While certain families might be encouraged by this provision to establish IRAs for the purpose of buying a home, this authority should not cause significant loss of revenues to the federal government. It would not change the amount of money that may be deposited in benefit plans, nor the income limits or other conditions on tax-deferred deposits—limitations that have reduced the cost of new IRAs. Normal IRA taxation rules would apply to amounts withdrawn prematurely and to amounts received and not reinvested in a home. Because taxes already are deferred on the appreciation of a home, there would be no incentive to invest IRA funds beyond the minimum level needed to qualify for a home purchase; above that amount, the buyer would, in effect, be losing the benefit of tax-deferred appreciation and earnings that would otherwise be realized in a retirement account. Thus, the overall revenue loss to the federal government might indeed be less than if buyers had separate tax-deferred investments in their homes and their retirement accounts.

RECOMMENDATION: The federal government should continue mortgage revenue bond programs for low- and moderate-income home buyers.

The Task Force recommends continuation of mortgage revenue bond programs for low- and moderate-income first-time home buyers, for targeted development efforts and for rehabilitation loans.

Revenue bond programs have served the needs of hundreds of thousands of home buyers who otherwise might have been excluded from the market or from affordable rehabilitation financing. In addition, these programs have enabled state and local agencies to develop substantial expertise in housing production and finance. This increased capacity is a critical element in the Task Force's reliance upon these governments as the primary delivery system for the recommended Housing Opportunity Program. Further, by imposing sales price limits and, most recently, income limits, Congress has assured the targeting of revenue bond programs.

Mortgage revenue bond programs can be used, in conjunction with HOP assistance, to increase the impact of state and local housing initiatives. Because revenue bond programs are subject to income-targeting restrictions (generally up to 115 percent of area median income) less stringent than most HOP funding, states and localities will have greater freedom to respond to particular local needs and priorities. They may elect, for example, to use bond programs to assist moderate-income people in purchasing homes in high-priced markets. Such programs also enable state and local agencies to combine financing with the provision of home purchase or rehabilitation assistance.

The Task Force further recommends that state and local agencies be permitted to continue to operate Mortgage Credit Certificate programs. While these certificates are a relatively new device, they have found a level of acceptance in the marketplace and deserve continuation as an alternative to the use of mortgage revenue bonds.

RECOMMENDATION: State and local governments should use HOP to assist low-income home buyers and homeowners.

More than half of American households with incomes below median are homeowners, and more than one third of homeowners have incomes below 80 percent of median. In recent years, however, homeownership has become steadily less accessible to lower-income households.

Programs to facilitate homeownership and to assist owners in maintaining their properties are key elements in a comprehensive, locally developed housing strategy. In devising this strategy, states and localities should consider ownership programs with all forms of housing assistance, including tax-exempt financing, rental assistance and HOP funds. These plans also should encompass: coordination of such assistance with other federal aid programs; augmentation of federal monies with state and local funds; and measures to reduce housing costs.

The Task Force recommends that state and local governments provide home purchase assistance through the proposed Housing Opportunity Program. Income limits and targeting restrictions would apply to homeownership activities, as they would to any other HOP activities. States and localities would be permitted to determine the amount of assistance, the specific income targeting and the types and prices of homes—making whatever trade-offs they deem appropriate between the amount of assistance furnished to individual purchasers and the total number of households served.

Such flexibility notwithstanding, the Task Force emphasizes that the use of a second mortgage under which interest is deferred and accrued is an attractive mechanism for reducing both down payment requirements and carrying costs. It permits the use of market-rate conventional or government-insured financing for first mortgages, while limiting subsidies to the subordinate financing. It also offers a variety of approaches to the reduction and recapture of home purchase assistance.

While federal law would not require the recapture of all subsidies used to facilitate homeownership, the Task Force intends that state and local governments provide for reduction in assistance as owners' incomes increase, and for repayment of a portion of the assistance upon sale of the home. Because homeownership is a significant investment to families, however, recapture provisions should not eliminate all benefits of appreciation. For example, a local program might require repayment of an accruing second mortgage with the sale of a property, provided the repayment formula does not discourage homeowner investment and reinvestment. The repaid amounts would be used to fund other HOP activities.

The Task Force encourages state and local governments to use HOP funds to explore home purchase programs for low-income households, traditionally served only by federal housing rental programs. Such initiatives will likely involve substantial monitoring and administrative efforts by the operating government, along with the participation of local nonprofit groups. "Sweat equity" and other in-kind requirements might help meet a portion of the purchasers' responsibilities. The additional cost and effort involved are fully justified by the long-term benefits of enabling low-income people to build a stake in their homes, their neighborhoods and their future.

The Task Force intends that state and local governments also use HOP funds, where appropriate, to help lower-income owners preserve and rehabilitate their homes and strengthen their neighborhoods. In the past, these governments have made use of mortgage revenue bonds, Community Development Block Grants and other federal, state and local resources to carry out rehabilitation and preservation programs for lower-income homeowners. Local nonprofit groups, such as the Neighborhood Housing Services organizations, have played a critical role in helping governments design and implement preservation and improvement strategies. With limited funds available for new development, preservation becomes even more important in ensuring a continued sup-

A young family in Florida looks at the plans for a low-cost home.

ply of affordable housing. HOP funds, augmented by state and local contributions, will expand the resources available for housing preservation efforts.

The proposed Housing Opportunity Program requires substantial state or local contribution. The Task Force further recommends that no state or locality be permitted to carry out a homeownership program through HOP unless, as part of its contribution or HOP program, it provides specific assistance through one or more of the following: (1) direct cash contribution of a portion of subsidy costs; (2) real estate tax abatement that directly reduces carrying costs and increases affordability; (3) reductions in fees, permit costs or zoning restrictions; (4) substantially increased infrastructure support; (5) provision of publicly owned land. In this way, HOP will emphasize that local strategies to reduce development barriers and costs can be as beneficial to home buyers as those that provide direct government funds.

RECOMMENDATION: Congress and HUD should explore the potential of employer-sponsored and employer-assisted housing.

The Task Force notes two promising areas of exploration regarding the role of employers in promoting housing affordability on behalf of their employees.

The first centers on how corporations can assist employees in financing the purchase of homes near their jobs, with particular emphasis on large employers in high-cost areas. Private corporations, local governments, religious organizations and others have begun to join forces with employers to identify sites for affordable housing and to structure the requisite private and public financing to build it. Types of housing assistance that could be provided include land density reallocations, tax-exempt financing, employer tax credits and property tax abatement.

The second area of exploration is employer-assisted housing. One recent study identified 50 employers that already have helped their employees purchase homes near their jobs by making housing assistance an employee benefit like health coverage. Advocates have called for changes in federal laws defining and regulating benefits to authorize housing benefits as permissible corporate activities. They contend that these proposals can be implemented on a revenue-neutral basis.

The Task Force commends these attempts to link moderate-income employees with housing near their jobs and to offer housing as an employee benefit. It recommends that Congress and HUD further examine the merits of supporting them.

RECOMMENDATION: States and localities should actively explore means of reducing regulatory constraints on the production of affordable housing.

Many factors contribute to the high cost of housing—including interest rates, expensive construction techniques and regulatory requirements. The ability of home builders to produce affordable housing can be constrained by regulations imposing high fees and infrastructure costs, overly restrictive land use controls or outmoded building codes. Such regulations usually are created and administered by local governments; sometimes they are imposed by state governments. As a result, housing costs are often substantially higher than they need be.

The reduction in development costs and the updating of building codes are two areas where there are significant opportunities to reduce the cost of new housing. Adequate development densities also are a key, not only because of the savings in raw land costs, but also because the costs per unit of providing infrastructure are reduced. Unnecessary delays and complexities in permit processing are other factors that increase carrying costs and discourage development.

Impact fees—charges against new development to pay for sewage systems, roads, schools or other community-wide services—are a rapidly spreading means of imposing the capital costs of local public services on home builders and buyers. These fees often result in an increase in the cost of new housing, putting it out of reach for first-time home buyers and other potential buyers of modest means.

Although model building codes have generally incorporated new, cost-reducing technologies, some localities have failed to allow the use of those innovations. To address this problem, HUD and the National Association of Home Builders have instituted the Joint Venture for Affordable Housing—a collaborative effort to determine how more affordable housing might be produced through practical regulatory reform. Their experience from demonstration projects in 35 cities shows that through relatively simple changes in development requirements (such as narrower street widths, sidewalk specifications or different methods of construction), builders can produce housing at savings of 10 to 30 percent.

In the case of existing housing, building codes sometimes dictate expensive substantial rehabilitation, where only modest repair is economically feasible. The result of such requirements is often the further deterioration or abandonment of housing that could have been made livable.

The Task Force urges states and localities to examine the panoply of regulations governing the construction and rehabilitation of housing, to see if changes can be made to bring homes on the market less expensively—without compromising the integrity of environmental and other community-oriented safeguards. ■

VIII. The Housing Finance System

RECOMMENDATION: Congress should support the current housing finance system and not impose on it additional costs or other burdens.

America's housing finance system works well and with remarkable resilience. In the 1980's, 27 million home buyers have been able to finance their mortgage loans because of the access provided by the housing finance system to both domestic and international sources of capital. This healthy level of financing was accomplished in spite of numerous shocks to the system: the 1981-82 recession, the most severe economic downturn since the Great Depression; rapid deregulation of primary mortgage lenders; historically high interest rates; and regional economic difficulties that particularly hurt thrifts, thus placing enormous strains on the Federal Savings and Loan Insurance Corporation (FSLIC).

That the housing finance system has been able to deliver funds steadily to home buyers in spite of these shocks is a credit to the federal government's sponsorship of housing and homeownership. For more than half a century, the federal government has facilitated the flow of funds to housing through both direct and indirect supports and especially through the creation of a variety of institutions to buttress the housing finance system.

In the primary market, the federally insured thrift institutions, backed by the Federal Home Loan Bank system, continue to furnish the largest share of funds for housing in the primary market, even after the deregulation of interest rates payable on deposits. In 1987, for example, FSLIC-insured thrift institutions originated 40 percent of home mortgages. These mortgages were overwhelmingly conventional (that is, not insured by a government agency). Operating along with the thrift institutions is the government-insured market maintained by the Federal Housing Administration (FHA) and the Veterans Administration (VA).

In the secondary market, the Government National Mortgage Association (GNMA) provides a market for FHA and VA loans by guaranteeing the timely payment of interest and principal on securities backed by these loans. GNMA's guarantee carries the full faith and credit of the United States.

In the conventional market, the private corporations, Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac), are chartered by the federal government for the limited purpose of purchasing mortgage loans to replenish the funds of primary lenders. Fannie Mae and Freddie Mac may not deal in mortgages above a maximum limit set each year based on increases in housing prices; in 1988, the limit is $168,700. These two federally sponsored, private corporations also guarantee payments on mortgage-backed securities; but, unlike GNMA, their guarantees do not carry the full faith and credit of the United States.

This federal housing finance system has evolved into an efficient mechanism for linking the mortgage market with domestic and international capital markets. The federal connection enables home buyers to compete for funds with giant users of capital and helps keep mortgage rates as low as possible. At the same time, the system operates at no cost to taxpayers; indeed, both Fannie Mae and Freddie Mac pay corporate income taxes.

During the last several years, there have been suggestions that the role of the federal government in housing finance is improper and that home buyers should compete in a completely free market with other users of capital. Consequently, some have proposed the imposition of charges and restrictions on the housing finance system as now constituted. Congress has rejected all of these proposals.

While the Task Force has recommended adjustments in the FHA and VA programs to enhance the viability of homeownership programs and, in addition, has designed special opportunities for first-time buyers, it finds no reason for change in the basic housing finance system as outlined above.

RECOMMENDATION: Bank and thrift regulators should consider the Community Reinvestment Act as a powerful incentive to encourage institutions to invest in low-income housing and community development.

Many of the recommendations made elsewhere in this report, if implemented, will increase funding for low-income housing. Here, the Task Force calls attention to the Community Reinvestment Act (CRA). It should be considered an integral aspect of the housing finance system.

The Community Reinvestment Act was enacted by Congress in 1977 to place an affirmative duty on lending institutions to help meet the credit needs of the neighborhoods where they are located. Federal financial regulatory agencies are required to take into account an institution's CRA performance in reviewing its requests for expansion, merger and acquisition.

Despite criticism that it has been a weak tool, the Community Reinvestment Act helped turn what had been heated debates over redlining into a more constructive dialogue over legitimate community credit needs and strategies. The pressure of the CRA has led to many productive local partnerships between lending institutions and the communities in which they operate.

Increasingly, local groups are using the CRA as a lever to improve the availability and affordability of credit in low-income areas. According to recent surveys, the CRA has been directly responsible for as much as $4 billion in loan commitments for low-income housing and other community development efforts since its enactment.

Recent developments in the regulatory and economic environment for banks and thrifts, spurred by deregulation, pose new challenges to an effective CRA. In light of these changes, the Task Force recommends that federal financial regulatory agencies look more readily to the CRA as a powerful incentive to encourage institutions to make economically sound investments in low-income housing and community development. This can be accomplished by a combination of improved compliance reviews and incentives for good performance, as well as by evaluating performance against community credit needs. ■

IX. Fair Housing

RECOMMENDATION: The federal government must renew its commitment to enforcing the laws against discrimination in housing.

Twenty years after the enactment of the Federal Fair Housing Act, minorities still face persistent and pervasive discrimination in their efforts to secure satisfactory housing. Recent reports confirm that the average minority household—regardless of economic status, and whether seeking to buy a home or rent an apartment—encounters racially based discrimination when it enters the housing market. And as employment opportunities are located at increasing distances from urban centers, the need for minority workers to find housing in outlying neighborhoods will grow steadily.

The Task Force finds that expanded fair housing efforts must be a fundamental component of national housing policy. These efforts should be directed toward enforcement of existing laws to eradicate remaining barriers of discrimination, extension of those laws to bar discrimination against families with children, and use of federal housing assistance and state and local initiatives to expand housing choices for minorities.

RECOMMENDATION: The federal government must increase the enforcement of fair housing laws.

Private individuals and state and local governments are given the primary responsibility for enforcing rights under the Fair Housing Act. Using HUD funds, state and local agencies have increased their fair housing enforcement activities, and the number of such agencies recognized as providing appropriate rights and remedies has grown substantially. Still, the complaints acted upon by these agencies represent only a miniscule fraction of the incidents of housing discrimination estimated to occur. Additional authority and resources are required at the federal and local levels to bring about expanded enforcement.

The Housing Act of 1987 includes landmark legislation that would fund private fair housing groups to carry out testing and enforcement actions. Unfortunately, such programs are authorized only on a two-year demonstration basis, and no funding has yet been provided for the first year. Congress should fund this Fair Housing Initiative Program and should contemplate a longer time for carrying out its efforts. HUD should act quickly to identify potential recipients of funds, and to develop program regulations and guidelines that are consistent with effective fair housing enforcement.

Additional authority is also required for enforcing fair housing laws at the federal level. HUD and the Department of Justice must be authorized to move beyond so-called "pattern of practice" cases, to seek judicial remedies for individual acts of discrimination. HUD also should be empowered to issue restraining orders and to adjudicate remedies in administrative law proceedings.

In recent years, some local agencies working with owners of certain assisted housing projects have contemplated or carried out efforts intended to preserve integration and stability in those projects. The Department of Justice and HUD have actively opposed these endeavors. The Task Force recognizes that the legal status of such efforts is uncertain and that any process of allocating housing by race is inherently suspect. However, with the incidence of discrimination so great and the federal resources available to address the problem so limited, the Task Force finds federal opposition to these good-faith efforts to be unwise and inappropriate. Resources should be focused, as Congress intended, on the far more pervasive problem of discrimination that restricts the housing choices of minorities.

RECOMMENDATION: Discrimination against families with children should be prohibited.

There is widespread evidence that some families are being denied housing simply because they have children. Discrimination against families with children should be prohibited in the same manner as discrimination on the basis of race, color, religion, sex or national origin. By the same token, appropriate exemptions should be provided for specialized housing, such as that designated for the elderly.

RECOMMENDATION: State and local governments should use HOP funds and rental assistance to counter housing discrimination.

In recent years, a number of state and local agencies have shown remarkable initiative and creativity in promoting housing opportunities for minorities. The Task Force recommends building on that foundation and providing these governments with additional resources.

The proposed Housing Opportunity Program and increased availability of rental assistance will provide valuable resources for state and local governments to use in expanding housing choices for minorities, as well as in improving housing conditions in low-income neighborhoods. HOP funds can be used to acquire or develop housing for minorities in integrated or non-minority neighborhoods. Rental assistance can be used to enable families to remain in improving neighborhoods and to assist them in finding housing outside areas of low-income concentration. To facilitate the latter, people receiving rental assistance should be able to use it in any jurisdiction. The changes in tax policy contemplated by the Task Force would further contribute to the development or rehabilitation of integrated, mixed-income housing.

Every state and local strategy for the use of HOP monies will be required to include measures to combat housing discrimination and provide expanded housing opportunities. Such measures could include (a) land acquisition and siting of lower-income units or projects, (b) identification and leasing of units in non-minority areas, (c) removal of zoning or land use barriers and (d) coordination of remedies with enforcement actions. If local plans are not sufficient or not properly implemented, state action must be taken. To the extent that neither the state nor local government acts effectively, HUD should be required, in its award of HOP funds directly to local developers and nonprofit groups, to pursue fair housing objectives. This residual authority on the part of HUD, particularly when combined with judicial and administrative enforcement authority, should significantly increase the government's ability to deal with the most intractable problems. ■

X. Housing in Rural America

RECOMMENDATION: Current federal rural housing programs should be used, consistent with budget priorities, to improve housing conditions in rural areas.

The low pay and seasonal nature of many rural jobs—as well as the loss of employment opportunities in agriculture, mining, manufacturing and energy production—have prevented much of rural America from participating in recently improved economic conditions for the country as a whole. Non-metropolitan areas now have a higher rate of poverty and unemployment than metropolitan areas—and the incidence of inadequate housing is higher. In non-metropolitan areas, there are presently 4.3 million low-income households experiencing housing problems. Almost 2 million of these households have significant problems with the units themselves, including lack of plumbing.

The Task Force recognizes that what is required to meet the needs of poor citizens in rural areas is a comprehensive and coordinated housing and rural development approach. The framework for this currently exists within the programs and authorities of the Farmers Home Administration (FmHA) of the Department of Agriculture. In addition to a number of farm, community and rural development programs, the agency administers a variety of housing initiatives uniquely suited to rural needs. These include direct low-interest loans for homeownership and multifamily development, rental assistance, grant support for mutual self-help housing activities and home repair loans. For the elderly, FmHA provides both home repair loans and grants. To support these programs, the agency has a delivery system of over 2,200 field offices.

Federal rural housing programs currently in place should be used to the greatest extent practicable in improving housing and living conditions in rural areas. In addition, a proportionate share of the funds of the proposed Housing Opportunity Program should be allocated to non-metropolitan areas and, where appropriate, used in conjunction with the FmHA's efforts.

RECOMMENDATION: The Housing Corporation of America and the Farmers Home Administration should help build the capacity of rural nonprofit development organizations.

Many rural areas are well-served by private nonprofit and for-profit developers. However, the Task Force recognizes that some rural communities lack the human and financial resources to initiate and carry out development activities. The Housing Opportunity Corporation of America proposed in Recommendation I will play an important role in helping to correct this situation by working with national and regional rural organizations. HOCA will encourage states to create and support local rural housing entities, such as the network of Rural Preservation Corporations funded by the state of New York. In addition, FmHA should use its current authority to support the development of nonprofit organizations that will serve rural housing needs.

Substandard housing is particularly prevalent in rural areas, where 44% of the nation's total substandard units are located.

RECOMMENDATION: The federal and state governments should take steps to increase rural homeownership and to upgrade substandard housing.

The Task Force recognizes that the unique nature of rural areas requires approaches to meeting housing needs that differ from those used in the cities and suburbs. The FmHA's Section 502 homeownership program provides no-down payment, low-interest loans to low-income people, enabling them to become homeowners or to rehabilitate their homes. Through the FmHA county office network, the program reaches thousands of rural communities that often are underserved by conventional credit markets. In addition, FmHA coordinates housing aid with other forms of economic and infrastructure support. The Section 502 program is highly targeted—generally to households with incomes below 80 percent of the area median—and it provides modest, affordable housing.

Recognizing the effectiveness of the Section 502 program and the

FmHA delivery system, the Task Force recommends that the program be continued. In addition, within the current 40 percent set-aside of Section 502 funds for very-low-income families, FmHA should be permitted to provide deferred loans and to work with public agencies and nonprofit groups in carrying out homeownership programs.

The Task Force further contemplates that HOP funds administered at the state level on behalf of rural areas will be used, both separately and together with the 502 program, to improve homeownership affordability and to upgrade substandard housing. Such a combined state/FmHA effort can build on the cooperation between state housing finance agencies and FmHA offices that has evolved in tax-exempt finance and in the use of the low-income housing credit.

Award-winning houses for migrant farm workers in central California.

RECOMMENDATION: FmHA and HUD should place greater emphasis on housing for farm workers and Native Americans, and HOP funds should be used to meet the special needs of these groups.

Reports documenting the deplorable housing choices faced by the population of migrant farm workers appear with alarming regularity. Governmental response has been minimal. FmHA's Farm Labor Housing Loan and Grant Program is the only federal resource whose sole purpose is to provide housing for farm workers, including locally based seasonal and migrant workers. Funding levels, however, have been cut by two thirds over the last decade, from $68.7 million in 1979 to $18.3 million in 1987.

The Task Force recommends that a greater emphasis be placed on housing migrant farm workers directly through the FmHA network and that states be encouraged to participate as well. The California and Florida farm worker housing programs provide excellent examples of state activity.

A substantial portion of American Indians and Alaskan Natives living on reservations, on trust lands or in Alaskan Native Villages have serious housing problems. The latest Bureau of Indian Affairs Consolidated Housing Inventory shows that out of these 185,600 households, 92,970 are in need of new or substantially rehabilitated units. Currently, federal housing assistance for this group flows mainly through the HUD Indian Housing Program, CDBG discretionary funds and the Bureau of Indian Affairs Housing Improvement Program. The support now being provided under these programs is at an historical low, and subsidies are too small to meet the needs of these disadvantaged populations.

The Task Force finds that the pressing needs of American Indians and Alaskan Natives call for greater accessibility to mortgage credit through the HUD and FmHA insurance and credit programs. Moreover, HOP funds should be used to help address their housing needs. ■

Appendix 1

Members of the National Housing Task Force

James W. Rouse, Chairman

James Rouse has spent his adult life working with the American city, both as a developer and as a member of various public interest organizations. He was the founder of The Rouse Company and for 40 years was its chief executive officer, as president and then chairman of the board.

Retiring from the company in 1981, Mr. Rouse founded The Enterprise Foundation, a charitable organization that works with neighborhood groups throughout the country to provide fit and livable housing for the very poor, and The Enterprise Development Company, its subsidiary, a for-profit commercial real estate development company that helps support the Foundation's work.

The recipient of numerous academic and industry honors for his work on behalf of urban America, Mr. Rouse is now chief executive officer of both The Enterprise Foundation and its development subsidiary.

David O. Maxwell, Vice Chairman

David Maxwell has spent the past 18 years in the housing and mortgage finance industries, spanning work in both private industry and the federal government. He served as general counsel for the U.S. Department of Housing and Urban Development (HUD) from 1970 to 1973. After leaving HUD, Mr. Maxwell founded Ticor Mortgage Insurance Company and served as its chairman and chief executive officer from 1973 to 1981.

Mr. Maxwell is chairman of the board and chief executive officer of the Federal National Mortgage Association (Fannie Mae). He joined the corporation as president and chief operating officer in February 1981 and was elected chairman later that year.

A member of the Pennsylvania and District of Columbia bars and a fellow of the American Bar Association, Mr. Maxwell serves on the boards of numerous business, cultural and civic organizations, including the Alliance to Save Energy, The Urban Institute and The Enterprise Foundation.

Amy S. Anthony

Amy Anthony is the secretary of the Massachusetts Executive Office of Communities and Development. Appointed to the cabinet-level position by Governor Michael S. Dukakis, she assumed the post in January 1983. Ms. Anthony also is co-chair of the Massachusetts Housing Partnership, created in 1985 to increase the supply of affordable housing through a working collaboration of members of the public and private sectors.

Before her appointment, she directed the activities of Amy Anthony Associates, a housing consulting and development company. The firm's clients included federal and municipal agencies as well as nonprofit neighborhood groups and private sector organizations. Her earlier experience included seven years as the director of the Housing Allowance Project in Springfield, Massachusetts.

Ms. Anthony has served on a number of associations and committees concerned with housing and development issues; currently, she is president of the Council of State Community Affairs Agencies and a member of the National Low Income Housing Preservation Commission.

Maurice Lee Barksdale

Maurice Barksdale is president of H.M.B. Development, Inc., of Fort Worth, Texas.

Mr. Barksdale served as assistant secretary for housing and commissioner of the Federal Housing Administration (FHA), U.S. Department of Housing and Urban Development (HUD). He directed the housing policy and functions of the department, including the production, financing and management of government-assisted housing and the government-backed housing mortgage insurance programs of the FHA. Earlier, Mr. Barksdale was deputy assistant secretary for multifamily housing programs at HUD.

In the private sector, he served as president of the H.M.B. Management Company; worked as a Wall Street mortgage banker; served as vice president in charge of the real estate department of a commercial bank; and was the developer and manager of various real estate holdings.

Felix M. Beck

Felix Beck has been chairman of the board and chief executive officer of Margaretten & Company, Inc., of Perth Amboy, New Jersey, since 1969. Prior to that, he was an executive vice president of J.I. Kislak Mortgage Corporation and secretary of the Carteret Savings and Loan Association.

A Certified Mortgage Banker, Mr. Beck has held numerous positions of leadership in his industry. He is past president of the Mortgage Bankers Association of America and a member of the organization's executive committee and board of governors, as well as past chairman of several of its committees.

Mr. Beck has presented testimony before various Congressional committees and has lectured on mortgage banking at numerous graduate schools of business. He has been a director of the Federal National Mortgage Association since 1985.

Paul C. Brophy

Paul Brophy is currently vice president for development at Massaro Properties, Inc., a Pittsburgh-based real estate development company.

From 1977 to 1986, Mr. Brophy held positions in the city of Pittsburgh government, first as director of the housing department and then as executive director of the Urban Redevelopment Authority of Pittsburgh. Before his work for the city, he was executive director of ACTION-Housing, Inc., a civic nonprofit housing development and research agency in Pittsburgh.

Mr. Brophy is an adjunct professor at the School of Urban and Public Affairs of Carnegie-Mellon University and also teaches at the University of Pittsburgh's Graduate School of Public and International Affairs. The co-author of two books, *Housing and Local Government* (1982) and *Neighborhood Revitalization: Theory and Practice* (1975), he has written numerous articles for professional journals.

Gordon Cavanaugh

A partner in the Washington, D.C., firm of Roisman, Reno and Cavanaugh, Gordon Cavanaugh also serves as the legislative counsel for the Council of Large Public Housing Authorities.

Mr. Cavanaugh was administrator of the Farmers Home Administration, U.S. Department of Agriculture, from 1977 to 1981. Before that, he served as executive director of the Housing Assistance Council. He held the position of commissioner of licenses and inspection and housing director for the city of Philadelphia from 1966 to 1971, following the private and municipal practice of law between 1953 and 1966.

Mr. Cavanaugh is a board member of the National Low Income Housing Coalition, the National Council of Agricultural Life and Labor Research Fund and the Cooperative Housing Foundation. He is also a member of the Section on Urban, State and Local Government Law of the American Bar Association.

John Crosland, Jr.

John Crosland, Jr., is president of The Crosland Group, Inc., of Charlotte, North Carolina.

Mr. Crosland's experience in the home building industry dates to 1951, when he founded the Mecklenburg Corporation. In 1954, he joined the John Crosland Company as vice president; he later served in the positions of president, chief executive officer and chairman of the board.

Appointed a life director of the National Association of Home Builders in 1968, Mr. Crosland continues to hold offices in that organization and in other professional groups at the state and local levels. He currently is chairman of the North Carolina Housing Finance Agency, a member of the Federal National Mortgage Association Advisory Board, a member of the Habitat for Humanity Advisory Committee, and active on numerous other business and civic boards.

Terrence R. Duvernay

Terrence Duvernay has been executive director of the Michigan State Housing Development Authority (MSHDA) since 1983. In addition, he serves as special advisor on urban affairs to Governor James J. Blanchard, a position he has held since July 1986.

Before joining MSHDA, Mr. Duvernay was deputy regional administrator for the U.S. Department of Housing and Urban Development (HUD) in Seattle. His earlier HUD assignments included managing the New Orleans Area Office, holding various staff positions and consulting to HUD in Washington, D.C. From 1970 to 1979, Mr. Duvernay held a number of posts with the city of New Orleans, including chief administrative officer.

Mr. Duvernay is secretary/treasurer for the National Council of State Housing Agencies, past president and current member of the board of directors of the National Community Development Association and chairman of the Community Development Training Institute. He also serves on the boards of several other national and state housing and development organizations.

Jesus Thomas Espinoza

Tom Espinoza is chairman and chief executive officer of Espinoza Development Corporation (EDC), a Phoenix-based real estate development company serving residential and commercial needs and providing consulting services for downtown revitalization and redevelopment.

A major focus of EDC is on creating affordable housing for low- and moderate-income families, an endeavor to which Mr. Espinoza has devoted more than 18 years. Before forming his own company, he was chairman and chief executive officer of Chicanos Por La Causa, a 65,000-member community organization operating in Phoenix and throughout rural Arizona.

Mr. Espinoza is a director of the Phoenix Community Alliance Executive Board and is active in numerous other local groups. He serves on the Governor's Hispanic Advisory Board and is the immediate past president of the Arizona State Board of Education. He also is a board member of the Local Initiatives Support Corporation and is on the Hallmark Advisory Board.

Anthony M. Frank

Prior to his appointment as Postmaster General of the United States in February 1988, Anthony Frank was chairman and chief executive officer of First Nationwide Bank and its parent company, First Nationwide Financial. He joined the San Francisco-based institution as president in 1971, when it was called Citizens Savings; he was elected chairman of the board in 1975.

Before joining the bank, Mr. Frank was president of INA Properties, Inc., and group vice president in charge of INA Corporation real estate and health care activities. He also served as chairman of the Federal Home Loan Bank of San Francisco.

A director of several major corporations, Mr. Frank has been active in a variety of industry associations. He served as chairman of the California Housing Finance Agency and as president of the California Savings and Loan League.

Robert A. Georgine

Robert A. Georgine is president of the Building and Construction Trades Department of the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO). He was named to that position in 1974, after serving as secretary-treasurer for three years. Since 1985, he also has been vice president and a member of the AFL-CIO's executive council.

Mr. Georgine began his career with the Lathing Foundation in Chicago in

1962. He worked for the Wood, Wire and Metal Lathers' International Union from 1964 to 1971, assuming the presidency of the organization in 1970.

Mr. Georgine's civic as well as professional interests have led to membership on various presidential commissions and to numerous awards and commendations. He currently serves on the boards of directors or executive committees of over a dozen national industry, government and public interest organizations; in the housing area, these include the National Corporation for Housing Partnerships, the National Housing Conference and the National Low Income Housing Coalition.

Paul S. Grogan

Paul Grogan became president of the Local Initiatives Support Corporation (LISC) in 1986. He came to that post from Boston, where he was the director of the city's Neighborhood Development and Employment Agency (NDEA).

As director of NDEA from 1982 through 1985, Mr. Grogan managed Boston's programs in housing, neighborhood commercial development and job training. Concurrently, he was Mayor Raymond L. Flynn's liaison to the local business community, organizing the Business Advisory Committee to help direct policy development and implementation.

From 1980 to 1982, Mr. Grogan was deputy director of NDEA, in charge of manpower training and human services. Earlier, he served as director of the Boston Community Schools Program and was a policy planner and educational advisor to the mayor. Prior to joining the city administration in 1971, Mr. Grogan taught at the University School of Milwaukee for two years.

Dianne E. Ingels

Dianne Ingels is managing director of Argus Financial, Inc., an investment, development and advisory firm headquartered in Denver. She also is president of The York Company. She has been in the real estate business for 20 years and was the founder and president of The Ingels Company of Colorado Springs.

Recently appointed by President Reagan to the Board of Directors of the National Institute of Building Sciences, Ms. Ingels is on the boards of several private corporations and local civic and charitable organizations. She also is a member of the U.S. Department of Housing and Urban Development's National Manufactured Home Advisory Council and the Federal National Mortgage Association (Fannie Mae) Advisory Committee.

In the past, Ms. Ingels chaired the Colorado Springs Urban Renewal Authority and was vice chairman of the National Association of Realtors' Real Estate Finance Committee. She served as a Presidential appointee to the Fannie Mae board of directors from 1981 to 1986.

Bruce E. Karatz

Bruce Karatz is president and chief executive officer of Kaufman and Broad Home Corporation, a major on-site housing, land development and mortgage banking company. He joined the firm in 1972, after an internship at the Securities and Exchange Commission in Washington, D.C., and after practicing law with a Los Angeles firm.

Mr. Karatz started with Kaufman and Broad as associate corporate counsel and soon assumed operational responsibilities as forward planner for the company's southern California housing division. In 1974, he accepted a position with Kaufman and Broad in France; two years later, he was put in charge of all the firm's French housing operations. Returning to the United States in 1980, Mr. Karatz became president of Kaufman and Broad's on-site housing operations; in 1985, he was also named chief executive officer.

Mr. Karatz is active in civic and cultural orgnizations in Los Angeles and Paris. While in France, he became the first American appointed a director of the National Federation of Builders and Developers.

John J. Koelemij

Since 1954, John Koelemij has been a builder in Tallahassee, Florida, where his company has constructed some 3,000 housing units. He is the owner of Orange State Construction Company, which builds single-family homes and apartments, develops land and manages rental property.

Mr. Koelemij is the former president of the 147,000-member National Association of Home Builders. He currently serves as president of the International Housing Association. Active in local and state industry organizations as well, in 1974 he became the first person to be honored as "Builder of the Year" by the Florida Home Builders Association.

Mr. Koelemij has chaired the planning commissions for both his city and county as well as other task forces for local government. He has served as a board member for the Tallahassee Chamber of Commerce and the Florida Economic Club and was the first president of the Leon County Mental Health Center.

Marilyn Melkonian

Marilyn Melkonian is the president of Telesis Corporation, a Washington, D.C.-based company working in community development and the preservation and development of affordable housing. The firm also acts as advisor to public agencies, businesses, labor unions and nonprofit organizations on housing and community planning issues.

Ms. Melkonian began her involvement in housing policy and legislation on the staffs of Senators Edward W. Brooke and Thomas McIntyre, both members of the Senate Committee on Banking, Housing and Urban Affairs. She then became a partner in a law firm that represented developers and nonprofit sponsors in the development, management and syndication of assisted housing.

She served as deputy assistant secretary of the U.S. Department of Housing and Urban Development from 1977 to 1980, first for insured and direct loans and later for all multifamily housing. Since 1980, Ms. Melkonian has been counsel and business advisor to Lucasfilm, Ltd., and an architectural firm. She founded Telesis in 1984.

Anita Miller

Anita Miller is chairman, chief executive officer and president of AmeriFederal Savings Bank. She founded the Lawrenceville, New Jersey-based company four years ago.

From 1980 to 1984, Mrs. Miller was affiliated with the Local Initiatives Support Corporation as the South Bronx Project Director and served as a trustee of the Lincoln Savings Bank of New York City. During 1978 and 1979, she was a member and acting chairman of the Federal Home Loan Bank Board in Washington, D.C.

Mrs. Miller currently chairs a committee on newly chartered financial institutions for the U.S. League of Savings Associations and serves as a member of the Massachussetts Institute of Technology Planning, Architectural and Real Estate Graduate School Visiting Committee. She was a founder of Neighborhood Housing Services of New York City and served on its board for six years. In 1986, she completed a second term as a member of the Federal National Mortgage Association National Advisory Committee.

Lewis S. Ranieri

Lewis Ranieri is the chairman and chief executive officer of Ranieri Wilson & Co., Inc., a New York investment partnership. A former vice chairman of Salomon Brothers, he is generally considered to have been the guiding force behind the mortgage-backed security concept.

At Salomon Brothers, Mr. Ranieri was in charge of the firm's activities in the mortgage, real estate and government-guaranteed areas. He joined the firm in 1968 while attending college. Moving up through a variety of positions over the years, Mr. Ranieri was named a vice president in 1975 and was admitted as a general partner in 1978. He became a member of Salomon

Brothers' executive committee in 1984 and was appointed a vice chairman of the firm three years later.

Mr. Ranieri is a member of the board of trustees at the South Street Seaport Museum, Marymount College (Tarrytown) and the Environmental Defense Fund. He is also a member of the board of directors of the Peninsula Hospital Center and serves as trustee for the Parish of Our Lady of the Rosary/Shrine of St. Elizabeth Ann Seton.

Richard Ravitch

Richard Ravitch is the former chairman and chief executive officer of the Bowery Savings Bank of New York and chairman of Aquarius Management Corporation. He is also a general partner in Waterside Redevelopment Company, North Waterside Redevelopment Company, Stevenson Commons Associates and Manhattan Plaza Associates.

Mr. Ravitch has assumed leadership positions in numerous business, civic and charitable organizations. He is currently the chairman of the New York City Charter Revision Commission, and a member of the Council on Foreign Relations and the Board of Governors of the American Stock Exchange.

Mr. Ravitch's activities have led to his appointment to numerous local and national commissions and to varied commendations. In the housing and community development area, he has received the American Institute of Architects Award of Merit, the American Society of Construction Engineers Construction Achievement Award, the Citizens Housing & Planning Council of New York Special Award and the Robert Moses Special Achievement Award.

Joseph P. Riley, Jr.

Joseph Riley is the mayor of the city of Charleston, South Carolina. First elected to the office in 1975, Mayor Riley has been re-elected twice without opposition. In 1986, he became president of the U.S. Conference of Mayors.

Mayor Riley was an attorney in private practice prior to his election as mayor. His political career began 20 years ago, when he became the youngest member of the South Carolina House of Representatives.

A member of the advisory board of the National League of Cities, Mayor Riley is past president of the Municipal Association of South Carolina and a member of the board of Neighborhood Housing Services of America. He has served as chairman of the National League of Cities Urban Conservation Task Force and the Cities Task Force of the Southern Growth Policies Board. His efforts in city revitalization have resulted in numerous awards for Charleston and its mayor. Among other recognitions, Mayor Riley has been inducted into the American Society of Landscape Architects as an honorary member and was presented the Outstanding Mayor's Award by the National Urban Coalition.

Lawrence B. Simons

Lawrence Simons is a partner in the Washington, D.C., law firm of Powell, Goldstein, Frazer & Murphy, specializing in development, housing and financial matters.

From 1977 to 1981, Mr. Simons served as assistant secretary of housing and federal housing commissioner at the U.S. Department of Housing and Urban Development. In that dual capacity, he directed a wide range of mortgage insurance and assistance programs designed to help produce and manage housing meeting the needs of lower- and middle-income Americans.

In addition to his legal practice, Mr. Simons has been active for more than two decades in the home building industry. He served on the board of directors of the Pennsylvania Avenue Development Corporation for seven years and currently is on the boards of the National Association of Home Builders, the National Housing Conference and the National Housing and Rehabilitation Association. He has been the Man of the Year of the National Housing Conference and serves on the Mayor's Commission on Downtown

Housing. A former home builder from Staten Island, New York, Mr. Simons has held various positions with state builders organizations in New York and the Staten Island Home Builders Association.

Mary Lee Widener

Mary Lee Widener is president of Neighborhood Housing Services of America, Inc. (NHSA) and one of its cofounders. NHSA develops resources for affiliate community revitalization organizations nationally.

Mrs. Widener played a key role in the growth of Neighborhood Housing Services (NHS) organizations established to upgrade declining neighborhoods; the network has grown from three in 1971 to over 200 today. She began this work as an urban program coordinator with the Federal Home Loan Bank Board and continues as a member of the officer's committee of the Neighborhood Reinvestment Corporation, the successor organization.

A variety of activities has complemented Mrs. Widener's efforts as president of NHSA; she has served on the board of directors of the Federal Home Loan Bank of San Francisco and on the Federal National Mortgage Association Advisory Council, in addition to participating in numerous study groups and foundations. Her current board and committee memberships include Partners for Livable Places, the Daniel E. Koshland Committee of the San Francisco Foundation and the Oakland, California, NHS.

Harold O. Wilson

As executive director of the Housing Assistance Council (HAC), Harold Wilson administers HAC's activities in field operations, the revolving loan fund, training information, intergovernmental coordination, research and policy development. In addition to directing the council's work, he provides guidance in rural matters to state agencies and, on request, to Congressional committees and federal government officials.

Mr. Wilson also serves as president of Rural Housing Services, Inc. (RHS), a subsidiary of HAC that promotes the development of lower-income rural housing through tax-advantaged syndication and other means. Earlier, he was executive director of Rural Housing Improvement, Inc., a community-based development agency in Winchendon, Massachusetts.

Mr. Wilson is a member of the board of directors of the National Housing Conference, the National Low Income Housing Coalition, the National Rural Housing Coalition, the Cooperative Housing Foundation and the Rural Coalition. He also is a member of the Maryland Affordable Housing Committee.

Leo E. Zickler

Leo Zickler is president and chief executive officer of the Oxford Corporation and Oxford Development Corporation.

Mr. Zickler joined Oxford's predecessor, Lippman Associates, in 1961. He became president of Oxford three years later and served as chief operating officer for all the company's operations until 1969. He then established his own development firm, CBI Corporation, in Boston.

Mr. Zickler merged his operations into Oxford's in 1974 and returned to Indianapolis as the company's president and CEO. In 1982, Mr. Zickler was instrumental in the reorganization and expansion of Oxford and in relocating the corporate headquarters to Bethesda, Maryland, a suburb of Washington, D.C.

Barry Zigas

Barry Zigas is president of the National Low Income Housing Coalition, a nonprofit advocacy organization based in Washington, D.C. He also is executive secretary for the Low Income Housing Information Service, an affiliated educational and research organization.

Before joining the Coalition in 1984, Mr. Zigas was on the staff of the U.S. Conference of Mayors, first as director of the housing assistance staff and then as assistant executive director, serving as the organization's principal lobbyist. Prior to his eight years with the Conference of Mayors, he was assistant managing editor of the Housing and Development Reporter, published by the Bureau of National Affairs.

Mr. Zigas is vice chairman of the board of directors of the Catherine McAuley Foundation in Denver; secretary of the Coalition for Human Needs; a trustee of The Enterprise Foundation; and a member of the advisory board of the Housing and Development Reporter.

Staff To The Task Force

Raymond K. James

A partner in a Washington, D.C., law firm, Raymond James has an extensive practice focusing on federal housing programs and legislation.

Mr. James played a major role in the development of the Housing and Community Development Act of 1974, first as assistant general counsel of legislation at the U.S. Department of Housing and Urban Development (HUD) and later as counsel to the Housing Subcommittee of the House Banking Committee. He also participated, in his earlier positions at HUD, in designing housing and urban development legislation in 1968.

Anthony S. Freedman

Anthony Freedman is a partner in a Washington, D.C., law office. His area of expertise is housing finance and development, including tax-exempt financing and all forms of governmental assistance for housing. He also has extensive experience in legislative representation, particularly in legislation concerning taxation, housing, budget and environmental protection.

Mr. Freedman was deputy assistant secretary for housing policy and budget for the U.S. Department of Housing and Urban Development from 1979 to 1981, and deputy director, legislation, for the U.S. Environmental Protection Agency in 1977 and 1978. Previously, he held several staff positions with the House of Representatives.

Appendix 2

Members of the National Housing Policy Advisory Panel

CO-CHAIRMAN

Leland Brendsel *President and Chief Executive Officer, Federal Home Loan Mortgage Corporation*

CO-CHAIRMAN

Ira Gribin *President-Elect, National Association of Realtors*

MEMBERS

M.J. Brodie *Executive Director, Pennsylvania Avenue Development Corporation*
Kent Colton *Executive Vice President, National Association of Home Builders*
Stuart A. Davis *Director, Laurene Davis, Inc. Realtors*
Robert I. Dodge, III *Partner, AHI Associates*
Cushing N. Dolbeare *Consultant on Housing and Public Policy, National Low Income Housing Coalition*
Weston E. Edwards *Senior Executive Vice President, Lomas and Nettleton Company*
Martin Fine *Senior Partner, Fine, Jacobson, Schwartz, Nash, Block, England*
Emanuel V. Freeman *Executive Director, Greater Germantown Housing Corporation*
David Garrison *Director, Urban Center, Cleveland State University*
Albert H. Gerston, Jr. *President, Gerston Company*
Daniel B. Grady *President, Council of HUD Management Agencies*
George Greenwell *Chairman Emeritus, Lincoln Service Corporation*
Ernest B. Gutierrez, Jr. *Director, City of Boston Fair Housing Commission*
T.L. Holmes *Chairman of the Board, Investment Division, National Association of Real Estate Brokers, Inc.*
Robert D. Horner *Chairman and CEO, CitiCorp Mortgage Company*
Kenneth Johnson *Director of Housing, City of St. Paul*
Charles John Koch *President and Chief Operating Officer, The First Federal Savings Bank*
Glenn Kummer *Chairman, Manufactured Housing Institute*
Warren Lasko *Executive Vice President, Mortgage Bankers Association of America*
Eugene Lehrman *Board Member, American Association of Retired Persons, Madison, Wisconsin*
Gerald Levy *Chairman, Guaranty Savings & Loan Association*
Thomas H. Lewis, Jr. *Executive Director, Detroit Housing Department, Detroit, Michigan*
Joseph S. Murphy *Chancellor, The City University of New York*
William D. North *Executive Vice President, National Association of Realtors*
Charles E. Peck *Chairman, Ryland Group*
Ann Pringle *Group Vice President, Maine Savings Bank*
Ronald F. Poe *President, Dorman & Wilson, Inc.*
Carl Reidy *Executive Vire President, Council of State Housing Agencies*
Robert C. Rosenberg *Partner, Hawkins, Delafield & Wood*
Bruce Rozet *Chairman of the Board, Associated Financial Corporation*
Martha Sachs *Co-General Manager, Cooperative Services, Inc.*
Helen L. Sause *Project Director of Yerba Buena Center*
Mike Schmelzer *Board of Directors, National Association of Realtors*
Joel Singer *Vice President of Planning, Research & Economics, California Association of Realtors*
Bernie Tetreault *Executive Director, Housing Opportunities Commission*
John Tuit *Administrator, Community Redevelopment Agency, Los Angeles*
Kurt VanKuller *Vice President, Leventhal & Co., Inc.*
Harold Van Varick *First Senior Vice President, American Savings Bank*
Walter Webdale *Director, Fairfax County, Virginia, Department of Housing and Community Development*
Alan Yassky *President, New York State Association of Realtors*

Appendix 3

List of Papers From the Massachusetts Institute of Technology Housing Policy Project

HP#0 Housing Policy for the 1990's, Denise DiPasquale & Langley C. Keyes (MIT).

HP#1 The Nation's Housing: A Review of Past Trends and Future Prospects, William C. Apgar (Harvard University).

HP#2 A Strategy for Designing a National Housing Policy for the Federal Government of the U.S., Anthony Downs (The Brookings Institution).

HP#3 Institutional Roles, Relevance and Responsibilities, Marshall Kaplan & Franklin James (University of Colorado).

HP#4 New Directions for Federal Housing Policy: The Role of the States, Ian Donald Turner (BRIDGE) & Thomas Cook (Bay Area Council).

HP#5 Federal Fair Housing Policy in the U.S.: The Great Misapprehension, George C. Galster (College of Wooster).

HP#6 The Building Industry, Robert H. Kuehn (Keen Development).

HP#7 First Time Homebuyers: Issues and Policy Options, Denise DiPasquale (MIT).

HP#8 Housing and the Capital Markets, Michael Lea (Imperial Corporation of America).

HP#9 Resolving Local Regulatory Disputes and Building Consensus for Affordable Housing, Michael Wheeler (MIT).

HP#10 The Tax Reform Act of 1986 and Real Estate, Patric H. Hendershott (Ohio State University).

HP#11 Tax Incentives and Federal Housing Programs: Proposed Principles for the 1990s, Patrick E. Clancy (Greater Boston Community Development, Inc.).

HP#12 Integrating Housing and Welfare Assistance, Sandra Newman (Johns Hopkins) & Ann Schnare (ICF, Inc.).

HP#13 The Voucher/Production Debate, John C. Weicher (American Enterprise Institute).

HP#14 Preservation of the Existing Stock, Phillip L. Clay (MIT) & James E. Wallace (Abt Associates).

HP#15 Housing and the Homeless, Langley G. Keyes (MIT).

HP#16 The Role of Nonprofits in Renewed Federal Housing Efforts, Neil Mayer (Office of Economic Development, City of Berkeley).

HP#17 Housing and Supportive Services: Federal Policy for the Frail Elderly and Chronically Mentally Ill, Sandra Newman (Johns Hopkins) & Raymond J. Struyk (Urban Institute).

HP#18 The Role of Public Housing in a Revitalized National Housing Policy, Michael Stegman (University of North Carolina).

HP#19 Rural Housing: Status and Issues, Carol B. Meeks (University of Georgia).

REPORT OF THE NATIONAL HOUSING TASK FORCE

THURSDAY, APRIL 14, 1988

U.S. Senate,
Committee on Banking, Housing, and Urban Affairs,
Subcommittee on Housing and Urban Affairs,
Washington, DC.

The subcommittee met at 10 a.m., in room SD-538 of the Dirksen Senate Office Building, Senator Alan Cranston (chairman of the subcommittee) presiding.

Present: Senators Cranston, Dixon, Sasser, Sanford, and D'Amato.

OPENING STATEMENT OF SENATOR CRANSTON

Senator Cranston. The hearing will please come to order.

I welcome all of you to this morning's hearing. It is one of an important series of hearings we are having in which Congress will consider the future of national housing policy.

Today we continue to review recommendations of the National Housing Task Force. The task force brought together a remarkable group of leading practitioners from the various sectors of the Nation's housing system. Members are all men and women of achievement, people with unusual understanding, imagination, and commitment to decent, affordable housing for all Americans.

Under the leadership of Jim Rouse and David Maxwell, the task force performed a great service to the country. It provided a clearer understanding of America's housing challenge and has suggested a number of practical solutions that are within the country's capabilities.

Task force members have put before us a bold but realistic course of action. Already the task force report is being carefully analyzed by key organizations and individuals around the country who care about the quality of housing for all Americans. In the coming weeks and months Congress will need their criticisms, their suggestions for refinement, their additional recommendations.

I personally will seek the broadest feasible participation in the development of an effective new framework for national housing policy. Over the next 3 months, I intend to work closely on a bipartisan basis with Senator Al D'Amato, Congressman Henry Gonzalez, Congresswoman Marge Roukema, and other colleagues in both Houses of Congress. But we need the active involvement of many supporters of housing outside of Congress as well.

I am very pleased by the positive response we are getting. I am encouraged. I believe we can produce a major housing bill this year that will be not only realistic, but also imaginative. I am convinced that, working together, we can produce a bill that will help reverse the disturbing trends we have seen in recent years: declining home ownership rates and a dwindling supply of decent, affordable housing for low and moderate-income people.

Much remains to be done in the next few weeks, but the broad outlines of such a bill are beginning to take shape. One segment of the bill should make it possible for more families to buy a first home. The National Housing Task Force has proposed a number of steps to accomplish that important objective.

A panel of witnesses at our first hearing reviewed those suggestions. I intend to see progress on that front.

Another segment of the bill should expand the availability of decent rental housing that is affordable to low and moderate-income people.

First, we should preserve as much of the existing supply of affordable housing as possible. We need a much more effective organization of Federal resources to avoid the loss of as much of the existing supply of affordable housing as possible. The cost of not doing so would be enormous.

Second, we should expand the supply of rental housing that is affordable to low and moderate-income people. Many localities cannot achieve adequate levels of production or rehab or acquisition of affordable rental housing without effective Federal support. The task force has made a number of important recommendations to mobilize the resources of States, local governments, nonprofit organizations, and private industry to meet the housing needs of the nation in the next decade.

Third, we need to streamline and improve the methods of providing rental assistance to families and individuals whose incomes are simply too low to afford decent housing.

Our first panel this morning will address this need to provide affordable rental housing. An additional segment of the new bill should provide a more effective response to the housing needs of those with special needs: The elderly, the handicapped, the homeless. It makes no sense to consider housing and supportive services in isolation from one another as we have been doing in recent years. Each of these groups have quite distinct requirements and Federal policy should respect those differences.

Our second panel this morning will address the housing policies that affect those with special needs.

Our hearing last Tuesday was excellent and very valuable. I look forward to this morning's testimony with great anticipation. Because we have tried to accommodate as many witnesses as possible, I ask each of you to keep your oral testimony to less than 5 minutes. Your full prepared statement, presuming that you do have one, will go into the record in full, of course.

If you stick to that time limit, and we will do our best to see that you do, we will have time to ask you some questions. If you don't, we won't.

We are honored to have such outstanding witnesses. I welcome you all. We will now proceed, I believe first with testimony is

Barry Zigas, president, National Low Income Housing Coalition and member of the National Housing Task Force.

Barry, I thank you for your marvelous work on that task force. That task force met just about 2 days and a night every week for many, many weeks through several months last fall and came up with a fine report. Barry, you were a key part of that and I thank you for that.

Before we begin, I have statements from Senators Dixon, Sasser, Sanford, and D'Amato. So without objection they will be inserted in the record.

Alan J Dixon

STATEMENT BY SENATOR ALAN J. DIXON

OVERSIGHT HEARING OF THE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS ON THE NATIONAL HOUSING TASK FORCE REPORT

APRIL 14, 1988

MR. CHAIRMAN, I AM PLEASED TO BE HERE THIS MORNING AS THE HOUSING SUBCOMMITTEE CONTINUES ITS OVERSIGHT HEARING ON THE NATIONAL HOUSING TASK FORCE REPORT, "A DECENT PLACE TO LIVE."

THE FIRST OVERSIGHT HEARING ON TUESDAY, APRIL 12, 1988, WAS AN INFORMATIVE ONE. WE HEARD FROM THE

CHAIRMAN AND VICE-CHAIRMAN OF THE TASK FORCE, AS WELL AS REPRESENTATIVES OF THE HOUSING INDUSTRY AND LENDING INSTITUTIONS.

WE HAD A DETAILED DISCUSSION ON THE TASK FORCE'S RECOMMENDATIONS WHICH I CHARACTERIZE AS A FRAMEWORK TO THIS COMMITTEE AS WE ATTEMPT TO REEXAMINE THIS NATION'S HOUSING GOAL: TO PROVIDE EVERY AMERICAN FAMILY WITH "A DECENT HOME AND A SUITABLE LIVING ENVIRONMENT."

I WILL CERTAINLY REMEMBER THE CONCERNS RAISED BY EACH OF THE WITNESSES AS WE WORK TO DEVELOP A HOUSING BILL.

TODAY, I LOOK FORWARD TO THE TESTIMONY FROM THESE EXPERT WITNESSES WHO REPRESENT VARIOUS NATIONAL ORGANIZATIONS AND ASSOCIATIONS.

MR. CHAIRMAN, WE MUST ACT SOON TO ALLEVIATE THIS NATIONAL HOUSING CRISIS. HOUSING PROGRAM REDUCTIONS HAVE CONTRIBUTED TO AN INCREASE IN THE NUMBER OF HOMELESS INDIVIDUALS AND FAMILIES, AND THE LACK OF AVAILABLE AND AFFORDABLE HOUSING FOR LOW- AND MODERATE-INCOME FAMILIES.

I FEEL CONFIDENT THAT WITH THIS TASK FORCE REPORT, WE ARE OFF TO A GOOD START.

MR. CHAIRMAN, AGAIN, I WANT TO EXPRESS MY APPRECIATION TO YOU AND THE RANKING MINORITY MEMBER, SENATOR D'AMATO, FOR HAVING SOLICITED THE ASSISTANCE OF THE NATIONAL HOUSING TASK FORCE.

Jim Sasser

STATEMENT OF SENATOR JIM SASSER, HOUSING SUBCOMMITTEE, APRIL 14, 1988

MR. CHAIRMAN, I WANT TO AGAIN THANK YOU FOR YOUR LEADERSHIP ON THIS IMPORTANT ISSUE, IN PARTICULAR, FOR YOUR PRESSING AHEAD WITH THESE HEARINGS.

TODAY, OUR FOCUS IS LOW INCOME AND SPECIAL NEEDS HOUSING. THE NATIONAL HOUSING TASK FORCE REPORT UNDERLINES THE CRITICAL NEED FOR US TO DEVOTE ATTENTION TO THESE AREAS. AS I SAID TUESDAY, FAMILIES ARE HOMELESS ON THE STREETS OF MY STATE. MOREOVER, WE CANNOT IGNORE THE HOUSING NEEDS OF OUR SENIOR CITIZENS AS WE ATTEMPT TO COMPREHENSIVELY REFORM OUR HOUSING LAWS.

ON TUESDAY, THE SUBCOMMITEE FOCUSSED TO SOME EXTENT ON A BOLD PROGRAM THAT IS BEING CARRIED OUT IN THE CITY OF CHATTANOOGA IN MY HOME STATE. CHATTANOOGA HAS MADE A COMMITMENT TO MAKE VERY HOUSING UNIT IN THE CITY FIT AND HABITABLE IN TEN YEARS. THIS IS

A PUBLIC PRIVATE PARTNERSHIP. IT IS DIRECTED AT THE NEEDS OF LOW INCOME RESIDENTS OF CHATTANOOGA.

INDEED, I AM PROUD THAT CHATTANOOGA IS THE "PREMIER PROJECT" OF JIM ROUSE'S ENTERPRIZE FOUNDATION. THE FOUNDATION IS PROVIDING VALUABLE TECHNICAL ASSISTANCE AND OTHER SERVICES TO THE CITY.

I THINK THAT THIS IS A PROJECT THAT THIS SUBCOMMITTEE SHOULD CLOSELY MONITOR. IT COULD BE A MODEL FOR THE RESTORATION AND PROVISION OF LOW INCOME HOUSING IN CITIES ALL ACROSS THE COUNTRY. THANK YOU, MR. CHAIRMAN.

Terry Sanford

STATEMENT OF SENATOR TERRY SANFORD
FOR HEARING ON THE NATIONAL HOUSING TASK FORCE
APRIL 14, 1988

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

MR. CHAIRMAN, I WANT TO THANK YOU FOR YOUR EFFORTS TO SET A NEW NATIONAL HOUSING AGENDA. OVER THE PAST SEVEN YEARS WE HAVE SEEN A STEADY DECLINE IN THE NATION'S COMMITMENT TO OUR HOUSING NEEDS. I COMMEND YOU FOR ALL THE WORK THAT HAS BEEN DONE TO DATE AND LOOK FORWARD TO AN ONGOING DIALOGUE AS YOUR WORK PROGRESSES.

I DO HAVE ONE AREA THAT IS OF CONCERN TO THE PEOPLE OF NORTH CAROLINA, AS WELL AS THOSE IN MANY OTHER STATES. THAT IS THE PARADOX WE SEE IN RURAL AMERICA. RURAL ECONOMIES ARE IN DECLINE RELATIVE TO THE ECONOMIES OF THEIR URBAN COUNTERPARTS. I HOPE THAT IT IS THE INTENTION OF THE SUBCOMMITTEE TO DISCUSS THE SPECIAL NEEDS OF NONMETROPOLITAN AREAS IN FUTURE HEARINGS.

THE REPORT OF THE NATIONAL HOUSING TASK FORCE ACKNOWLEDGES THAT A COMPREHENISVE AND COORDINATED HOUSING AND RURAL DEVELOPMENT APPROACH IS NEEDED TO MEET THE NEEDS OF

POOR CITIZENS IN RURAL AREAS. I AM STRONGLY SUPPORTIVE OF A COMPREHENSIVE APPROACH TO SOLVING THE PROBLEMS OF RURAL AMERICA AND HOPE THAT THE POLICIES ON ALL SUCH ISSUES ARE DESIGNED WITH COORDINATION IN MIND.

I WOULD HOPE THAT AS WE TAKE THIS COMPREHENSIVE LOOK AT THE CRISIS OUR COUNTRY FACES IN HOUSING, WE EXAMINE, ALONG WITH THE MANY OTHER ISSUES ADDRESSED IN THE EXCELLENT REPORT BY THE NATIONAL HOUSING TASK FORCE, THE SPECIFIC REASONS WHY RURAL AREAS LACK ADEQUATE HOUSING. I NOTE THAT IN THE WORKING PAPER ON RURAL HOUSING PREPARED BY THE MASSACHUSETTS INSTITUTE OF TECHNOLOGY (MIT) THAT THERE ARE SEVERAL UNANSWERED QUESTIONS ON AVAILABILITY OF FINANCING FOR HOUSING IN NONMETROPOLITAN AREAS.

I WOULD LIKE TO SEE THESE QUESTIONS FROM THE MIT REPORT ANSWERED. IN PARTICULAR: 1. DO NONMETROPOLITAN LENDERS PARTICIPATE IN THE SECONDARY MARKET IN THE SAME WAY AS METROPOLITAN LENDERS? 2. WHY AREN'T MORE FHA MORTGAGES MADE IN NONMETROPOLITAN AREAS? 3. DOES HOUSING COMPETE WITH FARMING FOR LENDER'S RESOURCES? 4. IS CREDIT AVAILABLE IN NONMETROPOLITAN AREAS BUT UNAFFORDABLE?

WE KNOW THAT OUR HOUSING STOCK IN RURAL AMERICA IS DIFFERENT FROM THAT IN URBAN AMERICA. ANY NEW DIRECTIONS FOR HOUSING POLICIES THAT ARE ADDRESSED BY CONGRESS MUST INCLUDE MEANS TO INCREASE HOUSING OPPORTUNITIES FOR RURAL RESIDENTS, IN TERMS OF BOTH AFFORDABILITY AND AN IMPROVED, ADEQUATE SUPPLY OF HOUSING. WE MUST INSURE THAT RURAL AND URBAN DWELLERS ALIKE HAVE ACCESS TO LIVABLE AND AFFORDABLE HOUSING.

AGAIN, I COMMEND YOU MR. CHAIRMAN AND OUR RANKING MEMBER, MR. D'AMATO, FOR YOUR EFFORTS TO BEGIN A THOROUGH EXAMINATION OF OUR HOUSING NEEDS AND TO DEVELOP A COMPREHNESIVE APPROACH TO ADDRESS THOSE PROBLEMS.

I ALSO WANT TO THANK JIM ROUSE, DAVID MAXWELL, AND THE MEMBERS OF THE NATIONAL HOUSING TASK FORCE FOR THEIR SUPERLATIVE EFFORTS IN EXAMINING THESE ISSUES AND FOR PRESENTING THE COMMITTEE WITH THEIR EXCELLENT REPORT, "A DECENT PLACE TO LIVE."

STATEMENT BY SENATOR D'AMATO
BEFORE THE SENATE BANKING COMMITTEE
APRIL 14, 1988

MR. CHAIRMAN, THE TASK FORCE IS CORRECT IN STATING THAT THE CONSTRUCTION OF LOW- AND MODERATE-INCOME RENTAL HOUSING IS DIRECTLY CONNECTED TO FEDERAL TAX POLICY. TO BUILD RENTAL HOUSING, DEVELOPERS NEED SUFFICIENT TAX INCENTIVES AND CONSISTENT TAX POLICY. UNFORTUNATELY, TODAY'S ENVIRONMENT OFFERS TOO FEW INCENTIVES AND TAX POLICY THAT SWINGS FROM ONE EXTREME TO ANOTHER.

THE ROUSE-MAXWELL REPORT SEEKS TO ADDRESS THIS CRISIS. ONE OF THE MOST IMPORTANT CONTRIBUTIONS OF THE NATIONAL HOUSING TASK FORCE IS ITS UNDERLYING MESSAGE: THAT IT IS APPROPRIATE TO EXTEND TAX INCENTIVES TO THE PRIVATE SECTOR TO BUILD AFFORDABLE RENTAL HOUSING.

WHY DID THE TASK FORCE RECOMMEND CHANGES IN TAX POLICY? NATIONWIDE, IN 1987, ONLY A HANDFUL OF PROJECTS UTILIZED TAX-EXEMPT BONDS TO BUILD AFFORDABLE HOUSING. IN 1985, OVER 300,000 UNITS WERE BUILT WITH TAX-EXEMPT FINANCING OF WHICH 60,000 WENT TO FAMILIES WITH INCOME BELOW 80% OF MEDIAN. IN NEW YORK STATE, NOT ONE UNIT OF AFFORDABLE RENTAL HOUSING HAS BEEN BUILT WITH TAX-EXEMPT BONDS SINCE THE PASSAGE OF TAX REFORM.

THE ROUSE-MAXWELL REPORT SUGGESTS CHANGES IN TAX-EXEMPT BONDS AND THE LOW-INCOME HOUSING TAX CREDIT. I SUPPORT MOST OF THE RECOMMENDATIONS OF THE REPORT. BUT I FEAR THAT THESE

CHANGES WILL NOT RESULT IN NEARLY THE HOPED FOR PRODUCTION OF AFFORDABLE RENTAL HOUSING. THIS IS BECAUSE THE TASK FORCE ENDORSES THE STRINGENT INCOME LIMITS FOR THE SUBSIDIZED PORTION OF A BUILDING BUILT WITH TAX-EXEMPT BONDS OR THE LOW INCOME CREDIT.

THE TASK FORCE DECIDED TO MAKE TAX-EXEMPT BONDS AND THE LOW-INCOME CREDIT WORK RATHER THAN TURN THE CLOCK BACK TO PRE-TAX REFORM LAW. I SHARE THE TASK FORCE'S BELIEF THAT REASONABLE MODIFICATIONS IN THE LAW CAN RESULT IN THE CONSTRUCTION OF AFFORDABLE RENTAL HOUSING.

IT IS VITAL, IN MY OPINION, THAT THE ISSUE OF INCOME LIMITS FOR BUILDINGS USING TAX-EXEMPT BONDS AND THE LOW INCOME CREDIT BE REVISITED. WITHOUT CHANGES, THE RECOMMENDATIONS OF THE TASK FORCE WILL NOT RESULT IN SIGNIFICANTLY GREATER PRODUCTION OF AFFORDABLE RENTAL HOUSING.

I AM ALSO CONCERNED THAT THE TASK FORCE DECIDED THAT MORTGAGE REVENUE BONDS SHOULD REMAIN THE $50 PER CAPITA STATE VOLUME CAP AND THE ALTERNATIVE MINIMUM TAX. THIS PROGRAM PROVIDES IMPORTANT LOW COST FINANCING FOR MIDDLE-INCOME FAMILIES TRYING TO BUY THEIR FIRST HOME. THE TASK FORCE IS RIGHT PROPOSE A PERMANENT EXTENSION OF THIS PROGRAM. BUT MORTGAGE REVENUE BONDS WILL NOT BE EFFECTIVE IF THEY REMAIN IN THE MINIMUM TAX AND THE STATE VOLUME LIMITATION.

THANK YOU, MR. CHAIRMAN.

I. SUMMARY OF TAX RECOMMENDATIONS:

1) INDEFINITELY EXTEND BOTH MORTGAGE REVENUE BONDS AND THE LOW INCOME HOUSING TAX CREDIT.

2) REMOVE TAX-EXEMPT BONDS USED TO BUILD RENTAL HOUSING FROM THE $50 STATE VOLUME CAP, ALTERNATIVE MINIMUM TAX AND ARBITRAGE RESTRICTIONS.

3) ESTABLISH A NEW DEPRECIATION SCHEDULE FOR RENTAL HOUSING (20 YEARS INSTEAD OF 28.5 YEARS).

4) EXEMPT QUALIFYING LOW INCOME RENTAL BUILDINGS FROM THE PASSIVE LOSS LIMITATIONS. THIS WOULD ALLOW AN INVESTOR TO USE PASSIVE LOSSES GENERATED FROM A LOW INCOME RENTAL BUILDING TO OFFSET OTHER INCOME.

5) ALLOW THE LOW INCOME HOUSING TAX CREDIT TO BE USED IN CONJUNCTION WITH DIRECT FEDERAL HOUSING ASSISTANCE.

6) EXEMPT THE LOW INCOME HOUSING CREDIT FROM THE ALTERNATIVE MINIMUM TAX.

7) ALLOW FIRST-TIME HOMEOWNERS TO USE THEIR IRA FUNDS FOR A DOWN PAYMENT ON A HOUSE.

TAX QUESTIONS
NATIONAL HOUSING TASK FORCE

POLITICALLY, MORTGAGE REVENUE BONDS, WHICH EXPIRE 12-31-88, ARE THE BEST ISSUE FOR YOU TO DISCUSS (SEE QUESTION A). YOU CAN HAVE A ROLE IN THIS ISSUE BECAUSE REIGLE IS NOT GALVANIZING SUPPORT AROUND HIS LEGISLATION TO EXTEND THE PROGRAM. ALSO, STEVE ROSS' PARTNER, MICHAEL FREID, IS TESTIFYING. YOU SHOULD ASK HIM ABOUT INCOME RESTRICTIONS ON RENTAL UNITS FINANCED WITH TAX-EXEMPT BONDS (SEE QUESTION B).

QUESTIONS:

A) MORTGAGE REVENUE BONDS.

(MORTGAGE REVENUE BONDS ARE USED TO FINANCE THE PURCHASE OF SINGLE FAMILY HOMES BY MIDDLE-INCOME FAMILIES. THE TASK FORCE RECOMMENDS A PERMANENT EXTENSION OF THE PROGRAM. BUT WOULD KEEP THESE BONDS IN THE VOLUME CAP AND MINIMUM TAX. HOWEVER, THE REPORT PROPOSES TO EXEMPT RENTAL HOUSING BONDS FROM THE CAP AND MINIMUM TAX.)

TAX REFORM REDUCED THE STATE VOLUME CAP FROM $150 PER CAPITA TO $50 PER CAPITA AND INCLUDED HOUSING BONDS WITHIN THE LIMIT FOR THE FIRST TIME. IN NEW YORK, THE VOLUME CAP REDUCES TAX-EXEMPT BONDS FROM ROUGHLY $2.5 BILLION IN 1985 TO $840 MILLION IN 1988. ALSO, HOUSING BONDS WERE INCLUDED IN THE MINIMUM TAX FOR THE FIRST TIME, RAISING THEIR COST ROUGHLY 25 TO 50 BASIS POINTS.

IN THE REPORT, NO MENTION IS MADE OF REMOVING MORTGAGE REVENUE BONDS FROM THE MINIMUM TAX OR STATE VOLUME LIMITATION. BUT THE REPORT PROPOSES TO REMOVE TAX-EXEMPT BONDS USED TO BUILD RENTAL HOUSING FROM THE MINIMUM TAX AND STATE VOLUME CAP.

IT SEEMS TO ME THAT IF BONDS USED TO BUILD RENTAL HOUSING ARE REMOVED FROM THE CAP AND MINIMUM TAX SO SHOULD MORTGAGE REVENUE BONDS. DO YOU AGREE? WHY SHOULD BONDS USED TO FINANCE SINGLE FAMILY HOMES BE TREATED DIFFERENTLY THAN BONDS USED FOR RENTAL HOUSING?

B) ARTIFICIALLY LOW INCOME LIMITS ON RENTAL HOUSING BONDS.

(TO USE TAX-EXEMPT BONDS TO BUILD RENTAL HOUSING, 20% OF THE BUILDING MUST BE OCCUPIED BY FAMILIES WITH INCOME BELOW 50% OF MEDIAN. PRIOR TO TAX REFORM, SUCH A BUILDING HAD TO HAVE 20% OF THE UNITS OCCUPIED BY FAMILIES WITH INCOME BELOW 80% OF MEDIAN. IN MOST URBAN AREAS, IT IS IMPOSSIBLE TO RAISE RENTS ON THE MARKET RATE TENANTS ENOUGH TO SUBSIDIZE THE TENANTS AT 50% OF MEDIAN INCOME. THE NEEDED SUBSIDY IS JUST TOO GREAT. THIS IS THE MAIN REASON WHY AFFORDABLE RENTAL HOUSING IS NOT BEING BUILT.)

IN 1987, NATIONWIDE VIRTUALLY NO NEW RENTAL HOUSING UNITS WERE BUILT WITH TAX-EXEMPT BONDS. IN 1985, OVER 300,000 UNITS WERE BUILT WITH TAX-EXEMPT BONDS. NO NEW UNITS HAVE BEEN BUILT IN NEW YORK WITH BONDS SINCE TAX REFORM.

IN A REPORT PREPARED FOR ME, PUBLIC OFFICIALS IN NEW YORK JOINED WITH BANKERS AND DEVELOPERS TO CRITICIZE THE EXISTING INCOME LIMITS.

THE TASK FORCE ENDORSES THE EXISTING 50% OF MEDIAN INCOME LIMITATION. I THINK THAT WE MAY WANT TO CONSIDER RAISING THE INCOME LIMIT. THE REPORT WOULD TAKE RENTAL HOUSING BONDS OUT OF THE CAP. BUT THE BONDS WILL NOT BE ISSUED BECAUSE OF THE STRINGENT INCOME LIMITS.

DO YOU AGREE? I KNOW THAT MR. ZIGAS DOES NOT AGREE.

C) THE TAX CODE AND MITCHELL-LAMA

IN NEW YORK, OVER 80,000 SO-CALLED MITCHELL-LAMA MIDDLE INCOME RENTAL UNITS MAY DISAPPEAR BECAUSE OF EXPIRING CONTRACTS. THOUGH MITCHELL-LAMA IS A FEDERAL PROGRAM, THIS PROBLEM EXISTS NATIONWIDE.

CONGRESSMAN RANGEL INTRODUCED LEGISLATION TO EXTEND THE LOW INCOME HOUSING CREDIT TO OWNERS OF AFFORDABLE HOUSING THAT KEEP THESE UNITS IN THE SUBSIDIZED HOUSING STOCK. ALSO, SUCH BUILDINGS WOULD RECEIVE A NEW BASIS FOR DEPRECIATION PURPOSES.

CONGRESSMAN RANGEL'S APPROACH IS INNOVATIVE. DO YOU THINK IT MAKES SENSE? WOULD IT SUCCEED IN PRESERVING THE EXISTING STOCK OF AFFORDABLE HOUSING?

Senator **Cranston**. Barry, please proceed

STATEMENT OF BARRY ZIGAS, PRESIDENT, NATIONAL LOW INCOME HOUSING COALITION

Mr. **Zigas**. Thank you very much, Mr. Chairman, and thank you for the opportunity to testify. I will just summarize my remarks and try to keep within the limit.

I am the president of the National Low Income Housing Coalition and our organization, as you know, is a national nonpartisan advocacy group that works to try to improve Federal policies to provide affordable housing for low income people.

I did have the privilege of serving on the task force. I appear today, however, as a representative of my organization. We circulated advance copies of the task force's conclusions and recommendations to our executive committee, which is composed of tenants, housing professionals, and advocates throughout the country, and my remarks today reflect the consensus that we came to in our meeting. So I want to make that clear.

First, I want to thank you and the ranking minority member for all the efforts you have put into this and the political legitimacy you have given our issue. Without your support on this, the task force could not have taken place, nor would we have had the kind of emphasis and attention being paid to this issue, and I think both of you deserve a vote of thanks from all of us who have worked so hard on this issue.

Second, I don't want to dwell very much on the housing need figures that were described in the task force report, but that they so clearly show how desperate the need is, that there ought not be any further questions about whether we should act or not.

My organization, along with the National Council of State Housing Agencies and NAHRO, who are here today, and other groups, helped commission a report by the Joint Center on Housing at Harvard University that really provides a very comprehensive picture of the state of the Nation's housing, and I would with your permission like to introduce that report into the record.

Senator **Cranston**. Yes, that will go into the record.

Mr. **Zigas**. One of the points I think is just critical that comes out of this report, beyond the recitation of the need and the dramatization of how desperate a crisis low income people face, is the set of principles that are laid out for pursuing housing policy in the future. I believe that these principles really can be summarized quite quickly.

MAIN POINTS TO PURSUE A HOUSING POLICY

First, the report stresses the need to address the crisis low income people face in housing today.

Second, it emphasizes that in order to resolve this crisis, we have to undertake a multiplicity of delivery systems and subsidy programs. We are not content to have a program to try to address this need. We want to foster multiple delivery systems at the State and local level. We want to foster different approaches to resolve the problem.

Third, we want to increase the supply of housing that is affordable to low and moderate income people.

Fourth, that we recognize that there is an unbreakable link between the problems of income of low income people and the problems of housing supply and preservation.

Finally, that we aim to increase the supply of housing which is permanently dedicated to low income use, a very important principle, I believe.

The task force makes it very clear that while it recommends changes in responsibilities for delivering housing assistance and addressing low income needs, that the Federal Government should and must remain the principal arbiter of national housing policy and should be the principal funder and director of efforts to resolve the low income housing crisis. And that is a goal with which our organization is in complete agreement.

On page 44 of the final report submitted to you, the task force makes what I consider to be its most fundamental recommendation, and I would like to just read that. It says:

> The Task Force recommends that Congress commit to providing sufficient rent assistance so that by the end of the century, in combination with an increased supply of affordable housing, no household that seeks fit, livable, and affordable housing will lack the opportunity to obtain it.

I think more than any other, this recommendation states the task force's intent clearly. It certainly is the recommendation with which we can most wholeheartedly agree.

Beyond the details of how to allocate scarce production-oriented resources, beyond the questions of how to develop accountability and innovation at the State and local level, beyond recommendations for reform of credit policies, this recommendation holds out the goal to which we must all commit ourselves.

The major obstacle preventing low income people from obtaining decent housing at an affordable price is their lack of income. I want to stress, Mr. Chairman, that I believe as the committee moves forward on this, that we must address the question not just of supply, which concerns us all as we look at inadequate housing that people have to occupy and the trouble people have finding affordable housing, but that we recognize that today there are millions of households who are poor, but living in decent housing, whose principal problem is that they are paying exorbitant amounts of their income for rent.

The Harvard report makes very clear that these are increasingly families with children and families in single-headed households who are paying 58 percent of their income for rent on the average. I think we have to address their problem for what it is. Many of them may not need new housing. What they need is for us to step in and assist them to afford the housing they have.

I also believe it is important for us to recognize that if we are to create a long-term affordable supply of housing, we have to rely more heavily on using nonprofit developers and public ownership of resources and devote ourselves to creating a supply of housing that is held in effect in public trust, that is operated as a service and not as a commodity to be sold, bought and traded and eventually traded out of the reach of low income people. I think that is one of the elements we really must emphasize as we develop our policy.

Finally, I would just say two brief things about the political realities of moving forward on housing. I think you will hear as you move forward that the public is not ready to fund big programs, the public is not prepared to spend money on these issues. I would like to submit, just for the record, two recent public opinion surveys that address this issue, one that was commissioned by the Campaign to End Hunger and Homelessness, of which my organization is a member, and the other which was published last week by the National Housing Institute.

Both of these surveys, which are professionally done, legitimate public opinion surveys, demonstrate that a majority of the people polled are willing to pay higher taxes, substantially higher taxes, if they are used to resolve the problems confronting people in housing today.

I think with the political will that you and the ranking minority member have brought to this issue here, we should build on this understanding and not be afraid to move forward very boldly and commit the kinds of resources that are necessary to resolve the problem.

With your permission, I would like to enter these into the record, and I will be happy to answer questions.

[The complete prepared statement of Barry Zigas follows:]

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Hon. Edward W. Brooke, *Honorary Chairperson* Barry Zigas, *President*

Prepared Statement of
Barry Zigas, President
National Low Income Housing Coalition

on the
Final Report of the
National Housing Task Force

Before the Subcommittee on Housing and Urban Affairs
Committee on Banking, Housing and Urban Affairs
U.S. Senate

April 14, 1988

Mr. Chairman, distinguished members of the Subcommittee, my name is Barry Zigas. I am President of the National Low Income Housing Coalition, a national nonprofit membership organization which works with Congress and the Administration to promote adequately funded assistance to end the low income housing crisis. Mr. Chairman, both you and the Subcommittee's Ranking Minority Member deserve our thanks for your resolve to move forward with a new agenda for housing. Without your political support, we would not be presented with the unique and exciting opportunities which the Task Force report makes possible.

I appreciate the opportunity to appear before you today to discuss the findings of the National Housing Task Force. As you know, I had the privilege to serve as a member of the Task Force. I appear today, however, as a representative of the National Low Income Housing Coalition. In preparation for this testimony, I circulated an advance copy of the final report's recommendations to the Coalition's Executive Committee, consisting of housing professionals, advocates, nonprofit developers and low income tenants throughout the country. Representatives of the Executive Committee met in Washington on April 11 to review the recommendations and report. My remarks today reflect the consensus that emerged through this review of the Task Force's recommendations.

In its overall scope, the Task Force report is a landmark effort. It presents a challenge to the Congress to quickly enact legislation which will respond to the critical challenge of providing all Americans with a decent place to live. The report covers the entire range of housing needs confronted by Americans today. My comments, however, will focus only on the recommendations which address the needs of low income citizens.

Low Income Housing Need

Other witnesses have already reviewed the summary statistics that underlie the Task Force report and document the crisis facing low income people today in the housing market. The National Low Income Housing Coalition and its affiliated research and education organization, the Low Income Housing Information Service, joined with other national housing groups last year to commission a major study of the State of the Nation's Housing by the Joint Center for Housing at Harvard University. I would like to submit a copy of this major report for the record. These data can leave no doubt about the challenge that we face today.

The Task Force report itself devotes considerable time and attention to detailing the scope and depth of the housing crisis faced by low income people. I do not want to try to repeat or highlight these findings here.

I do wish to stress, however, that low income people face a housing crisis of almost unprecedented proportions. The Harvard report should leave no doubt that the combination of rising costs in rental housing and shrinking real incomes among low wage earners have put millions of low income households in an unbearable housing cost squeeze. Those most severely affected by these dynamics are families with children. And among this group, children in single-parent families are facing the worst pressures.

The Federal Role

The National Housing Task Force's report contains many recommendations which, if adopted, would profoundly affect the distribution of housing assistance. Responsibilities would be redefined, and state and local governments given a much greater role in the development of housing assistance strategies.

I must emphasize that the Task Force also states unequivocally that the principal responsibility for a national housing policy must remain with the national government. The NLIHC supports efforts to give local and state governments a greater role in some aspects of national housing programs. But we strongly believe that the U.S. government must ultimately be responsible for assuring that all Americans have the opportunity to enjoy decent and affordable housing.

Closing the Gap Between Housing Costs and Income

On page 44 of the final report submitted to you this week, the Task Force makes what I consider to be its most fundamental recommendation. This recommendation states:

> "The Task Force recommends that Congress commit to providing sufficient rent assistance so that by the end of the century, in combination with an increased supply of affordable housing, no household that seeks fit, livable and affordable housing will lack the opportunity to obtain it."

More than any other, this recommendation states the Task Force's intent clearly. Beyond the details of how to allocate scarce production oriented resources; beyond the questions of how to develop accountability and innovation at the state and local level to produce new housing or preserve old housing; beyond recommendations for reforms in our credit policies, this recommendation holds out the goal to which we must all commit ourselves.

The major obstacle preventing low income people from obtaining decent housing at an affordable price is their lack of income.

The rising homelessness crisis is directly tied to this underlying reality. Increasingly large numbers of people simply cannot pay what housing costs. Because everyone needs a roof over their heads, families will bear enormous rent burdens. But they will be forced to do without other necessities as a result. Food, clothing, medical care and other necessities are sacrificed in order to pay the rent. Low income renters are constantly one paycheck or one calamity away from homelessness.

Historically, government programs have focused on improving and increasing the supply of housing available to poor people. The organization of the Task Force's final report conforms to this historical bias. So have many of the comments presented already to the Subcommittee. But changing American housing conditions over the last 50 years have rendered this emphasis increasingly obsolete.

The substandard housing which inspired a generation of production-oriented programs has largely been eliminated on a national level. There are important exceptions, of course. Rural housing conditions remain substantially worse than those in urban areas. Poor quality housing still exists, and slums have not vanished. But by and large, it is not the lack of decent housing which stymies low income people.

Where our policies have failed is in making good on the promise to ensure an adequate supply of decent, affordable housing.

Moreover, programs which emphasize supply solutions to the low income housing crisis cannot by themselves meet peoples' needs. Public housing, for instance, accounts for about one-quarter of the total housing units receiving subsidies from HUD. The housing was built using special bonds, which were guaranteed and fully paid for by the federal government. In other words, except for the ongoing cost of maintenance and operation, public housing is a cost-free commodity. There is no debt service to pay--since the federal government is paying for all of it--and local taxes are usually abated substantially or altogether.

Yet despite the fact that rents in public housing have to cover only the most basic costs of operating housing, public housing tenants as a group are still unable to pay them.

Public housing median incomes are around $6,700 per year. With 1.3 million units throughout the country, the federal government must appropriate each year nearly $1.5 billion simply to subsidize their operation and maintenance.

Production and rehabilitation incentives are still necessary to preserve and expand the supply of housing available to poor people. The continued development of affordable housing resources must remain an integral part of any national commitment to affordable housing for low income people. Extensive experience with both Section 8 Existing Housing Certificates and Vouchers shows that in many markets, the supply of moderately priced housing is simply not sufficient to accommodate the demand generated by rental assistance. The Experimental Housing Allowance Program (EHAP) also showed that even when all eligible families were provided assistance, the private market did not respond by either increasing production to meet the demand or by undertaking substantial rehabilitation to do so.

But without a fundamental commitment to helping poor families pay the real costs of shelter, production programs are doomed to fail. They will either be forced to serve a higher income group in order to pay their expenses, or they will go broke. This is not conjecture. Every production program ever invented by the federal government has been confronted with this dilemma sooner or later. It is time we faced the issue squarely and agreed to solve it.

Moreover, production and rehabilitation programs will never be able to operate on a scale which would reach all low income households in need, even if they tried. There are today over 30 million rental housing units in the United States. Only about 5 million of them, in both urban and rural areas, receive any form of federal housing assistance. How many more can we anticipate serving in the next decade through production strategies? Even if we could achieve the goal stated in the Task Force report of 150,000 to 200,000 additional low income units per year, we would by the end of the decade have reached only a maximum of 2 million additional poor families. Meanwhile, the Harvard report shows that in the last decade alone the number of renter families with incomes below $5,000 per year soared by several million. The number of renter households with incomes below $10,000 increased by nearly 50 percent, from about 8 million to nearly 12 million. No realistic student or observer of the housing economy can propose a production/rehabilitation strategy that will provide housing opportunities to a reasonable share of those who most need them.

The plain fact of the matter is that the vast majority of low income renters are already competing for existing decent safe and sanitary housing. Most of them live in standard housing. But most of them suffer from exorbitant rent burdens which expose them to the ever-present risk of homelessness.

On the other side of this equation are landlords and property owners--millions of them, unorganized, unrepresented, and in many cases unsophisticated about federal or any other governmental housing or tax policies--confronted with hard choices remarkably similar to those of their tenants. Their costs continue to rise. Their housing resource continues to age and require maintenance. Yet their tenants are increasingly unable to pay the rents which would be required to adequately maintain the housing.

Mr. Chairman, these are the principal actors in America's low income housing drama. Tenants and property owners. Both caught in a relentless squeeze which cannot and will not be resolved by applying traditional techniques of production or rehabilitation oriented subsidies. The long-term stabilization and preservation of the vast majority of the country's rental housing units depends on creating and sustaining a balanced market in which rents can support the needed investments to maintain and operate housing as an economic enterprise. As I will explain later in my testimony, federal policy should include a growing commitment to the development and support of a "social housing sector," in which the speculative value of the housing commodity is reduced or eliminated altogether. The National Low Income Housing Coalition believes this is a critical step which must be taken to stabilize the low income housing market. But even if a large share of the market is removed from the speculative arena, the ongoing irreducible costs of housing must be met. Without direct rental assistance financed by the federal government, poor people cannot pay these costs without endangering themselves and their families.

Congress must recognize this reality and commit itself to the goal articulated by the Task Force: to assure that by the year 2000, no low income family is denied the opportunity to live in decent and affordable housing because of a lack of adequate federal housing assistance. This requires a fundamental commitment to expanding a federal program of cash-based rental housing assistance to all who qualify for it by the end of the century.

Based on reliable estimates provided to the Task Force during its deliberations, such an effort would probably involve about 7 million households not now receiving federal housing assistance. Its annual cost would be between $17 billion and $19 billion once all of these eligible families were brought into the program. This estimate excludes families already receiving assistance, and is adjusted to account for those families who would choose not to participate in the program for one reason or another.

Such a program would more than double the current annual outlay for low income housing assistance when fully operational. But this major increase would achieve what the current federal housing assistance programs cannot: providing appropriate and desperately needed housing assistance to all families who need it.

Adjusting Rents to Ability to Pay

Another recommendation of the Task Force which we strongly endorse concerns the need to reconsider current federal policies of requiring all families to pay 30 percent of their adjusted gross income for rent, regardless of size. Research shared with the Task Force makes it clear that this can be an unreasonable and inequitable requirement. This is particularly true when it is applied to families with children, which the Harvard report illustrates are those most likely to be in housing need. I urge the Subcommittee to carefully examine this issue and incorporate recommendations for changes which will ease the housing cost burden for needy families.

Decentralizing Production and Rehabilitation Decision-making

Another central recommendation of the Task Force is the development of a so-called "Housing Opportunities Program," or HOP. This modified block grant would provide federal resources to state and local governments so that they can carry out housing assistance programs of their own design. The Task Force describes this program in terms of production, preservation and rehabilitation efforts. Another important component of the recommendation is the setting aside of at least 10 percent of the funds for projects sponsored by nonprofit organizations.

The National Low Income Housing Coalition supports efforts to give state and local governments more of a say in the actual design of programs for production and rehabilitation, and in the distribution of such funds in communities. This support grows out of years of experience by grass roots housing advocates with the inapplicability of federally "owned and operated" production programs to the real life needs of community preservation and development strategies.

Our support for this decentralization of some decision making presumes, however, that the federal government will maintain very strict targeting requirements for the use of the funds; will require serious and realistic planning by fund recipients; will require state and local governments to design housing programs which directly assist the most needy in the community; and will invest in a substantial and serious monitoring effort to assure that the goals set by Congress are being translated correctly at the state and local level.

A housing block grant-type program such as that proposed by the Task Force may be the best way to achieve this mix of local design responsibility and federal goal-setting. Perhaps others can be devised. The National Low Income Housing Coalition supports the overall thrust of this recommendation.

Encouraging Non Speculative Housing Models

The Task Force report highlights a series of innovative nonprofit housing efforts and recommends the active participation of such groups in the HOP program. The NLIHC supports this thrust. I urge the Committee to consider further steps to support the development of a nonspeculative housing sector.

Supporting a nonprofit, nonspeculative housing sector should become an important part of national housing policy. The speculative increase in housing values is one of the reasons housing costs keep escalating out of the reach of low income consumers. The development of housing which is designed to provide a housing service, not to offer a potentially lucrative inflationary increase in value, should help maintain an adequate supply of affordable housing. The development of such a housing sector should also have important competitive effects on the balance of the market. Public policy makers will have a standard for housing service delivery costs against which to measure demands made by privately owned and operated housing. Private owners too will have a benchmark against which they will be forced to compete. Such a system would encourage private owners still interested in speculative appreciation to offer additional services at competitive prices in order to maintain demand for their supply.

The current pending crisis in the existing inventory of federally assisted, privately owned rental housing illustrates one of the principal reasons we need to support a nonprofit housing sector. Earlier programs such as the Section 236 rental assistance program and the Section 515 rental housing program in FmHA depended for much of their success on the involvement of private developers and owners to produce or rehabilitate low income housing. Now, however, public policy makers seem shocked that these private sector actors are doing just what we expected them to do when first recruited to serve public goals: act like private developers and maximize profit. From the developer/owner's point of view, a 20-year commitment to maintaining affordability fulfills their basic obligation to the government. We should learn from this experience and invest public funds in housing which will be permanently dedicated to low income use.

I urge the Subcommittee to consider the provisions of the National Community Housing Partnership Act (H.R. 3891), introduced in the House by Rep. Joseph P. Kennedy II. This bill had its origins in the Community Based Supply Program proposed by the National Low Income Housing Coalition in 1984. It would provide grants to state and local governments which they would be required in turn to use to support housing development and preservation undertaken by nonprofit sponsors. All of the housing produced through this effort would have to be permanently dedicated to low income use.

Your Subcommittee should consider adding such a qualification to the HOP proposed by the Task Force. Sponsors of housing produced through HOP could be required to pledge its permanent dedication to affordable use by low income people. Subsidies used to finance housing which does not meet this test would be recaptured. In this way, owners would be able to make their own decisions, but would have to forfeit the value of the public subsidy in order to do so. This would assure that funds for low income housing are not lost as private market decisions are made, and would probably discourage some owners from entering into HOP-financed deals with an expectation of conversion at some point.

The National Low Income Housing Coalition is not against the use of private owners to provide affordable housing for low income people. As stated earlier, the vast majority of low income renters will have to rely on such owners for the foreseeable future for their housing.

The National Low Income Housing Coalition is in favor of developing an alternative model for housing ownership and management that emphasizes housing affordability and permanent dedication to low income use. We believe that the Subcommittee should agree and encourage the development of this sector as part of its authorization discussions. One specific recommendation would be to emphasize that communities should give priority to proposals to use HOP funds which are made by community based nonprofit organizations. While in some localities the nonprofit sector will not at the present time be able to actively participate because of lack of capacity, in others the proposed 10 percent set-aside will be too little. State and local governments should be required to encourage further participation by nonprofit entities where the capacity does exist.

The Subcommittee should also seek ways in which to facilitate the use of nonprofit organizations to participate in the preservation of existing federally assisted housing. With so much of the existing housing inventory potentially threatened, the Subcommittee should try to develop subsidies and program designs which will encourage the use of nonprofits to receive donations of existing properties in order to preserve their low income use, and to finance ownership transfers for the same purpose. Combinations of direct subsidies to underwrite the purchase of ownership interests, as well as tax policies which will encourage private owners to seek out nonprofit entities to take over properties should be designed and enacted into law as quickly as possible to further these goals.

Further, the Subcommittee should consider ways in which to help build the capacity of nonprofit housing providers. H.R. 3891 devotes an entire title to such a program. This will be necessary if we are to build a nonprofit, nonspeculative housing sector which can operate effectively and efficiently.

Maintaining Other Existing Housing Assistance Programs

One of the underlying themes of the Task Force report is the maintenance of competitive housing delivery systems. While the HOP has been presented as the centerpiece of its recommendations,

the report also makes a strong recommendation to maintain certain other federal housing assistance efforts.

Public housing is the most significant of these efforts in urban areas. The Task Force's recommendation that public housing development efforts be continued should be strongly supported by this Subcommittee. I also urge you to assure that the budgetary constraints mentioned in the report are not used as an excuse to ignore this recommendation.

The public housing program is a highly successful program. Although it is plagued by some well-publicized failures, the facts clearly show that most of the public housing inventory offers low income tenants high quality affordable housing. We must continue to build this inventory. Mistakes which are easy to discuss in hindsight should guide new development. Scattered site housing, expansion of the inventory through acquisition rather than development where there is a housing surplus, and other techniques are all being used today and should be encouraged.

Similarly, the rural housing assistance programs of the Farmers Home Administration should be maintained and adequately funded. Once again, the track record of these programs is exemplary. As importantly, the availability of FmHA programs in rural areas should act as a competitive goad and yardstick for states operating programs with HOP funding in rural and nonmetropolitan areas.

Community Development Banks

The Task Force recommends the increased use of so-called "Community Development Banks" to support community based enterprises and foster housing development and preservation. The National Low Income Housing Coalition urges you to examine the ways in which an existing network of community-based lenders--community credit unions--could be used to fulfill this objective. These credit unions are designed to serve community credit needs, and usually are founded by organizations directly serving the constituencies most in need of assistance. While the idea behind community development banks is sound, I urge the Subcommittee to fully explore ways in which the credit unions can play a role in carrying out the intent of the Task Force's recommendation.

Housing Opportunity Corporation

The Task Force recommends the establishment of a national nonprofit corporation to help found community development banks, spread the "word" about state and local government efforts to creatively use the HOP, and to generally foster the "new wave" discussed in the report. I will simply note that there already exist a number of national organizations dedicated to providing technical assistance, information, and support to the nonprofit housing sector, both in urban and rural areas. There are other groups which work with community-based organizations in struggles to ensure adequate credit in low income neighborhoods through agreements with banks and other financial institutions.

In following up on the Task Force's recommendation, I urge only that due care be given to not duplicating roles already played by established organizations which often must operate without any government support at all. The Subcommittee should examine the roles these independent organizations play and assess to what extent they should receive support from Congress to continue carrying out their missions along with a new, federally chartered corporation.

Budgetary Constraints and Equity

The Task Force report proposes a fairly modest increase in federal spending, certainly in comparison with the need. It recommends the continuation of some existing programs, but only "subject to budgetary constraints."

No one can argue that the country does not face a fiscal dilemma. But it is unfair and unreasonable to ask that low income families bear any more of the cost of the mistakes made over the last 8 years by Congress and the Administration.

Other witnesses have testified before you already on the sanctity of existing subsidy programs to underwrite homeownership. The Task Force report itself offers no recommendations at all concerning this most generous, costly and untargeted of all federal housing subsidies. Yet I would be derelict if I did not point out that although this Committee is forced to wring its hands and defend necessary expenditures for what the Harvard University report calls the nation's "housing have-nots," expenditures authorized by the Subcommittee account for only about one-fifth of all the money spent this year on housing assistance.

I have attached to my statement an analysis prepared through the Low Income Housing Information Service showing the distribution of benefits to taxpayers in different income classes of the home mortgage and property tax deductions. I know that many believe that the mortgage interest deductions are the primary means by which middle and moderate income Americans take advantage of the tax Code to help finance their dream homes. But the facts presented in the attached analysis show that however much we might wish this to be the case, it is not true.

Although taxpayers earning $20,000 per year or less make up 50 percent of all the filers, they receive only 2.3 percent of the total dollar value of mortgage interest deductions ($658 million). These same households claim even less of the dollar value of property tax deductions ($141 million, or 1.9 percent of the total claimed).

On the other end of the income spectrum, however, a different story is told. Filers earning more than $75,000, for instance, make up only 3.7 percent of all the estimated 129 million filers, yet they comprise 13 percent of the estimated 29 million filers claiming the home mortgage deduction and receive an estimated 35 percent of the dollar value of the deductions.

Filers with incomes above $50,000 total an estimated 11 percent of all filers. But they represent 35 percent of all filers claiming the home mortgage deduction, and as a group receive 66 percent--two-thirds--of the dollar benefits.

These expenditures may indeed be justifiable. Providing tax-based subsidies to prevent "vacation homelessness" through deductions for second homes may also be a justifiable public policy. But no country which can afford these kind of expenditures to facilitate the housing purchases of the highest income households in the nation can credibly deny a similar level of assistance to the millions and millions of families who are forced to live in housing which consumes 40, 50 or even 60 percent of their income for rent, and threatens mothers, fathers and children with homelessness.

As a nation and in Congress we have agreed to entitle all homeowners to tax benefits which we fail to restrict, police or monitor in any way, because there is a widespread political consensus that homeownership is an aspiration which should be available to as many Americans as possible.

The National Low Income Housing Coalition believes that poor people deserve the same consideration.

I urge you to take up the spirit of the National Housing Task Force report and draft legislation which will realize the commitment to assure that no poor family is denied the opportunity to live in decent and affordable housing because the federal government has failed to make available the resources needed to make the opportunity possible.

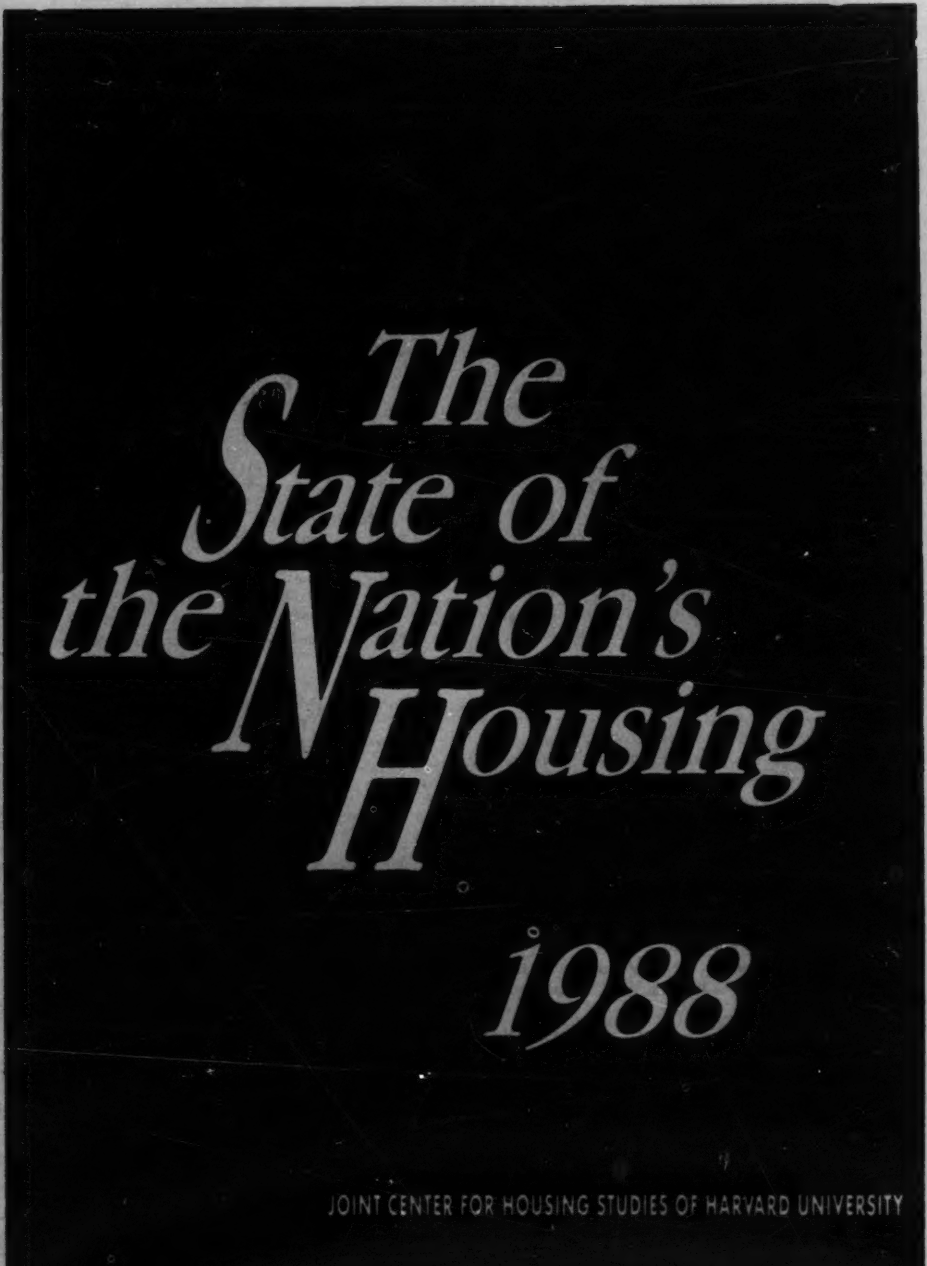
Thank you for the opportunity to share our views with you. I will be happy to answer any questions you may have about my testimony.

DISTRIBUTION OF TAX BENEFITS FOR REAL ESTATE TAXES AND MORTGAGE INTEREST DEDUCTIONS
Prepared by Barry Zigas, Executive Secretary, Low Income Housing Information Service
(Returns in thousands; amounts in millions of dollars)

Prepared: 01-Mar-88
Revised: 08-Mar-88

Income Class	Real Estate Taxes Returns	%	Amount	%	Mortgage Interest Deductions Returns	%	Amount	%	All Returns	%
Below $10,000	99	0.36%	$6	0.08%	165	0.56%	$30	0.11%	39,289	30.25%
$10,000 to $20,000	1,612	5.92%	$135	1.82%	2,209	7.47%	$628	2.27%	30,000	23.10%
$20,000 to $30,000	4,371	16.06%	$530	7.16%	5,277	17.84%	$2,135	7.70%	22,271	17.15%
$30,000 to $40,000	5,720	21.01%	$753	10.17%	6,269	21.19%	$3,004	10.83%	15,155	11.67%
$40,000-$50,000	5,025	18.46%	$949	12.82%	5,158	17.44%	$3,626	13.08%	9,250	7.12%
$50,000-$75,000	6,496	23.86%	$2,208	29.83%	6,614	22.36%	$8,546	30.82%	9,084	6.99%
$75,000 to $100,000	1,763	6.48%	$967	13.06%	1,728	5.84%	$3,623	13.07%	2,193	1.69%
$100,000 to $200,000	1,631	5.99%	$1,262	17.05%	1,603	5.42%	$4,001	14.43%	1,946	1.50%
$200,000 and over	507	1.86%	$592	8.00%	560	1.89%	$2,133	7.69%	685	0.53%
Total	27,224	100.00%	$7,402	100.00%	29,583	100.00%	$27,726	100.00%	129,873	100.00%
Total value going to taxpayers w/incomes >50K			$5,029	67.94%			$18,303	66.01%		
Total returns over 50K	10,397	38.19%			10,505	35.51%			13,908	10.71%
Total value to taxpayers w/incomes >75K			$2,821	38.11%			$9,757	35.19%		
Total returns over 75K	3,901	14.33%			3,891	13.15%			4,824	3.71%

SOURCE: "Estimates of Federal Tax Expenditures for Fiscal Years 1988-1992",
Prepared by the Staff of the Joint Committee on Taxation, February 27, 1987
Joint Committee Print, JCS-3-87



The State of the Nation's Housing

1988

JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

SUMMARY

America is increasingly becoming a nation of housing haves and have-nots. While the majority of American homeowners are well housed and have significant equity in their homes, the prosperity of these homeowners does not reflect the plight of the nation's growing number of low- and moderate-income households. Continuing high housing costs limit the ability of low- and moderate-income households to improve their standard of living as many households struggle to secure even minimally adequate housing.

Homeownership costs have eased somewhat since the early 1980s but remain high by historical standards. Young households find purchasing a first home especially difficult, as housing costs remain high relative to income. Unable to secure a home of their own, these persons remain renters and bid up the price of rental housing.

Despite five years of strong construction activity and rising vacancies, the supply of low-cost rental housing continues to shrink as units are lost to abandonment or are upgraded for higher-income occupants. Having lagged inflation in the 1970s, real rents (measured in constant 1986 dollars) have moved up sharply since 1981 and now stand at their highest level in over two decades. Rising rents have led to an increasing share of households paying 30, 40, or even 50 percent of their incomes for rents, if they can secure housing at all.

For decades, improving housing conditions has been an important component in the upward mobility of American families and individuals. For many, moving from renter to owner occupied housing is a key step on the path to financial security. For those without sufficient income to become homeowners, obtaining good-quality, affordable rental housing has been an equally worthy goal. And for those with the lowest incomes, publicly assisted units have served as the foundation upon which to build a better future for themselves and their families.

The growing number of housing have-nots suggest that this housing progress has stalled in recent years. The problems of the housing have-nots come in many forms, ranging from the frustration of a young couple unable to qualify for a home loan, to the desperation of low-income families with children who cannot secure any housing at all. This State of the Nation's Housing report seeks to document these diverse housing problems and provide a sound empirical foundation for the emerging national housing policy debate.

Exhibit 1

Key Findings

- The After-Tax Cash Cost of Homeownership, Although Down From Its Recent Peak, Remains High By Historical Standards
- The Homeownership Rate Has Declined Steadily Since 1980, Particularly Among Young Households
- Despite Rising Rental Vacancies, Inflation-Adjusted Gross Rents Now Stand At Their Highest Level In Two Decades
- The Supply of Low-Cost Rental Housing Continues To Shrink As Units Are Lost To Abandonment Or Are Upgraded For Higher-Income Occupants
- For The Growing Number of Low-Income Families, Rents Have Increased Sharply As A Percent Of Income
- Only One In Four Renter Households With Incomes At Or Below The Poverty Level Lives In Public Or Other Subsidized Housing
- The Growing Rental Payments Burden, Particularly Among Single-Parent Families, Has Contributed To The Rise In Homelessness

TRENDS IN HOUSING COSTS

The costs of housing and other basic needs are key determinants of the standard of living for any family or individual. Changes in housing costs thus affect not only the ability to secure decent housing, but also the amount of income available for other necessities.

Because housing consists of many attributes, obtaining reliable price profiles proves difficult. This section presents a series of indexes that trace the changes in prices over the period 1967 to 1987 of representative owner and renter housing units with fixed characteristics. These indexes help to distinguish between changes in housing expenditures that result from changes in the type of housing consumed and those that reflect increases or decreases in the price of a housing unit of given characteristics (see Appendix Table 1 for a more complete description of the data used to form these price indexes).

HOMEOWNER COSTS

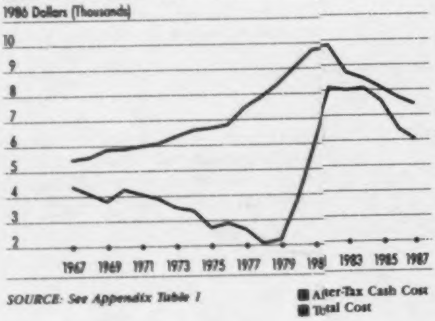
A complete homeownership cost index must incorporate indirect costs and savings as well as the more readily observable cash outlays and tax benefits. The after-tax cash cost of homeownership is the sum of several ongoing expenses (including outlays for mortgage interest payments, fuel and utility costs, maintenance and repairs, real estate taxes, and insurance) less the income-tax savings associated with owning a home. The total homeownership cost also includes the indirect cost of earnings foregone on funds used as a downpayment less the indirect savings from house price appreciation and the resulting equity buildup.

Exhibit 2 depicts how both the cash and total costs of owning and operating a modest single-family home during the first year of occupancy have changed over the last 20 years. In these calculations, a modest home is defined as the median-valued house purchased in 1977 by a first-time buyer aged 25 to 29. All costs are expressed in constant 1986 dollars.

After rising steadily for 15 years, the after-tax cash cost of homeownership reached a peak of $9,599 in 1982. Although it fell to $7,449 last year, the after-tax cash cost is still higher than the average recorded in the 1960s and the early 1970s. By comparison, the total cost of homeownership (including the foregone earnings on homeowner's equity and an allowance for price appreciation) remained at or below $4,500 from 1967 to 1979; indeed, for much of the period, total annual costs were less than $3,500. After 1979, though, total costs began to move up sharply; by 1982, higher home prices, interest rates, and utility costs—together with smaller gains from appreciation—had boosted the total costs of owning a home to $7,904. Though falling from this peak, total homeowner costs stood at $6,006

Exhibit 2

Homeowner Costs (In 1986 Dollars)



SOURCE: See Appendix Table 1

last year—still well above the average for the past 20 years.

There is little reason to expect a marked improvement in homeownership costs in the years ahead. The median price of the representative first home in 1987 approached $67,000, up more than 92 percent from the $34,800 figure for 1975. Rising prices are a double-edged sword: while they make homeownership a good investment for those who already own, they also force young first-time buyers to make larger downpayments and/or larger monthly mortgage payments. The legacy of the rapid home price inflation of the 1960s and 1970s is the continuing high home prices, and the high after-tax cash costs of homeownership.

REGIONAL HOMEOWNER COSTS

Since the costs of building materials and financing vary little from one region to the next, the prices of land and labor are largely responsible for long-term geographic differences in housing prices. According to a recent survey by the Urban Land Institute, a lot that sold in 1985 for $70,000 in San Jose, California, could be purchased for only $13,000 in Charlotte, North Carolina. Although detailed data that separate total home purchase prices from underlying land costs are not available, land cost is undoubtedly the major determinant of variation in home prices.

During the 1970s, home price appreciation in the West, and particularly in California, outpaced that in all other regions (Exhibit 3). Although house price inflation slowed considerably after 1982, the median price for the representative first home in the West last year was $82,285, still 23 percent above the national median.

In the Midwest and the South, housing prices increased less dramatically. In 1967, a first-time buyer could purchase a home in the Midwest for $180 less than the national average; in 1987, this home sold for $10,324 less. Home price inflation in the South has also lagged behind the national average: in 1967, a modest home sold for $1,324 less than the national average; by 1987, it sold for $11,744 less.

Price trends in the Northeast have been decidedly more volatile. During much of the

Exhibit 3

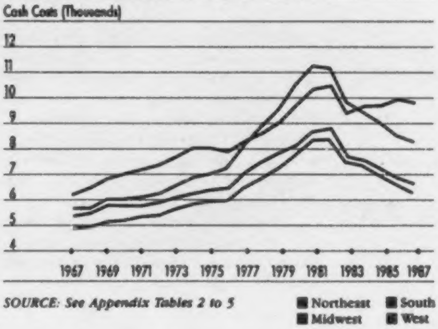
House Prices by Region

Region	1967	1972	1977	1982	1987
Northeast	$17,797	$26,048	$37,000	$58,201	$93,844
Midwest	16,350	20,993	32,700	50,162	56,562
South	15,206	19,958	29,700	48,975	55,142
West	18,318	22,780	42,900	71,386	82,285
All	16,530	21,611	34,800	56,202	66,886

SOURCE: Joint Center calculations based on 1977 Annual Housing Survey data indexed by Department of Commerce Constant Quality Home Price Index.

Exhibit 4

Regional Homeowner Cash Costs (In 1986 Dollars)



SOURCE: See Appendix Tables 2 to 5

1970s, house price inflation lagged behind national rates; since 1982, however, house prices in the Northeast have increased three times faster than the national average.

The real after-tax cash costs of homeownership also rose almost steadily in each region from 1967 to 1981 (Exhibit 4), but declining mortgage interest rates and a slowdown in house price appreciation have helped to lower these costs since then. Real after-tax cash costs dropped most rapidly in the West, although significant declines occurred in the Midwest and South as well. In the Northeast, however, rapidly rising home prices partially offset the effect of declining mortgage interest rates. Despite this regional variation, after-tax cash costs in all regions remain well above levels recorded in the 1960s and 1970s.

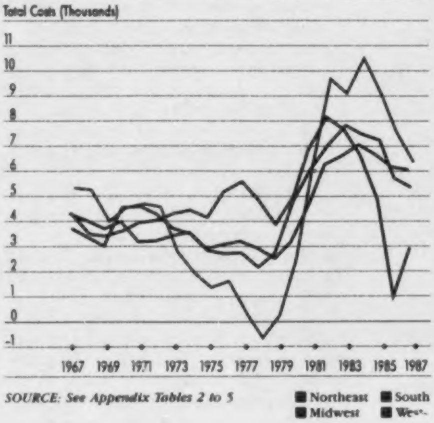
High home price levels and low current price appreciation combine to give the West the highest total homeowner costs in the country (Exhibit 5). Although down from the peak levels of the early 1980s, total costs in the Midwest and South remain above the levels recorded for much of the 1970s. In the Northeast, home price appreciation reduced total homeowner costs in 1986 to their lowest level in two decades; with slower house price inflation, however, the equity buildup in the Northeast also slowed and total homeownership costs in the region increased again in 1987.

RENTER COSTS

Unlike trends in homeowner costs, the recent growth in real rents has received little attention. Exhibit 6 presents estimates of real gross and contract rents for a representative unit with the characteristics of the median-priced rental unit in 1977. Contract rent is the monthly payment to the property owner for housing services; gross rent includes not only contract rent but also payments for fuel, water, sewerage, and other utilities.

Exhibit 5

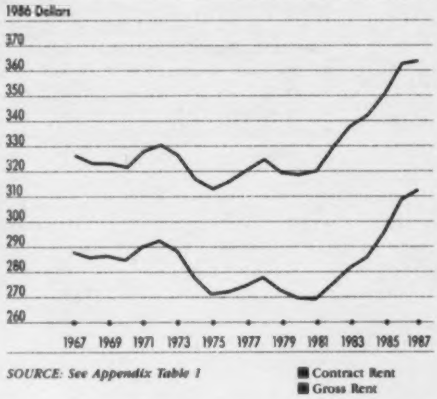
Regional Homeowner Total Costs (In 1986 Dollars)



SOURCE: See Appendix Tables 2 to 5

Exhibit 6

Rental Costs



SOURCE: See Appendix Table 1

Real rents (that is, adjusted for inflation in other goods and services) tend to move with the business cycle, falling during cyclical downturns and rising during expansions. Despite a sharp jump in rental vacancies, contract rents have moved up steadily since 1981 and now stand at their highest levels in more than two decades. In 1987, the contract rent for the representative unit was $312—an increase of 16 percent from the 1981 low of $269.

Gross rents have moved up as well, but somewhat more modestly because of the slowdown in energy price inflation. Nevertheless, the rise in gross rents is still pronounced: up 14 percent between 1981 to 1987, bringing the level to $364.

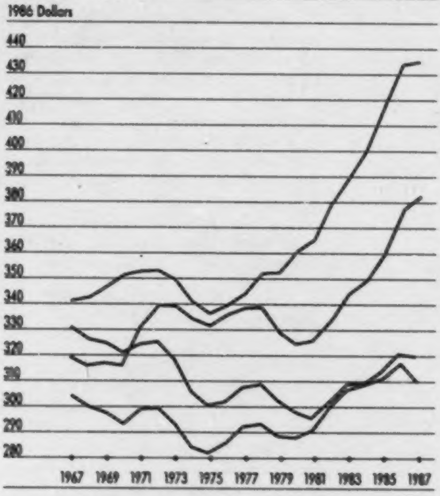
Gross rent is seemingly the more comprehensive measure, but changes in contract rent have considerable analytical significance. Gross rent can change as a result of shifting energy prices or other factors that have little to do with the long-run cost of housing capital. Policy analysts should note, however, that the persistent increase in contract rent during a period of substantial new construction suggests that there has been a long-term increase in the rental price of housing capital. Unlike a runup of energy costs, such a long-term trend is not quickly reversed. Over the past six years, the cost of supplying rental housing appears to have drifted upward, a movement that can only point to continued high rent levels in the years ahead.

REGIONAL RENT TRENDS

The Northeast and the West, areas of vigorous economic expansion, have witnessed the sharpest rent hikes during the decade (Exhibit 7). From 1981 to 1987, real gross rents in the West increased by nearly 19 percent, while those in the Northeast rose approximately 17 percent. More modest rent increases occurred in the Midwest. Only in the South, a region with substantial overbuilding, do gross rents appear to have peaked.

Exhibit 7

Regional Gross Rental Costs



SOURCE: See Appendix Tables 2 to 5

The rapid growth of rents seems inconsistent with the recent increase in residential vacancies. From 1981 to 1986, the number of vacant rental units nationwide expanded from 1.54 million to 2.66 million. In part, the reason for this phenomenon of growing vacancies and rising rents is that housing consists of many distinct submarkets defined by the location and the quality of the dwelling unit. Obviously, the increase of vacant rental apartments in Houston does little to check rent increases in San Francisco or Boston.

Even within a given housing market, vacancies at one quality level will not necessarily result in lower rents for housing of a different quality. It appears that over the past six years, many newly constructed, better quality rental apartments have remained on the market at relatively high rents. Indeed, units leasing for more than $300 in real terms account for 90 percent of the rise in rental vacancies during the past six years. While the rising vacancy rate may have resulted in some moderation in rents for luxury apartments, it has not limited rent increases of more modest apartments.

That rents are increasing fastest at the low end of the market is perfectly understandable. During the 1970s, an excess supply of housing, in part the result of a rapid buildup of subsidized housing in selected urban neighborhoods, depressed rents in some markets; even in 1986, many housing units still rented for $100 to $300. Yet in many areas, such low rents are inadequate to cover property owners' costs for utilities, property taxes, and debt service, let alone the costs of maintaining the buildings in good condition.

As a result, the number of units renting for less than $300 per month dropped by nearly one million between 1974 and 1983; the number of units with rents above $400, in contrast, increased by 4.5 million to 10.2 million (Exhibit 8). The loss of low-rent units involved two distinct dynamics: some fell into disrepair and were removed from the stock; others—especially those located in the stronger housing markets of the Northeast and West—were upgraded to attract higher-income tenants. High-rent units were thus added both by new construction and by rehabilitation of existing inventory.

Estimating the exact number of low-rent units lost to abandonment as opposed to revitalization is difficult. Recent data suggest, however, that investment in existing rental structures has been significant: after showing virtually no real growth from 1970 to 1982, expenditures for maintaining and upgrading rental units more than doubled from 1982 to 1986. While this trend is observable throughout the country, the investment increases in the Northeast and the West are particularly notable. Apparently, the recent rise in real rents has made investment in existing properties profitable again in many metropolitan areas—investment that will further diminish the supply of low-cost rental housing in the years ahead.

Exhibit 8

Monthly Gross Rent (Thousands of Units)

Gross Rent In 1986 Dollars	1974	1983	Change
<100	1,064	957	-107
100-200	4,197	3,408	-789
200-300	6,264	6,181	-83
300-400	5,846	7,034	+1,188
400+	5,748	10,233	+4,485
No Cash Rent	1,173	1,401	+228
TOTAL	24,291	29,214	+4,923

SOURCE: Joint Center tabulations of U.S. Department of Housing and Urban Development, Annual Housing Survey, 1974 and 1983.

THE HOUSING COST BURDEN

The rise in housing costs comes at a time when low-income households are particularly vulnerable. Since 1974, the number of low-income households has increased markedly. This trend reflects cutbacks in federal funding for various income-support programs, as well as the growing number of individuals with few marketable skills and limited income-earning capacity. The shrinking supply of low-cost housing, then, will most certainly result in increased housing payments relative to income for an ever larger number of low-income households.

INCREASES IN LOW-INCOME HOUSEHOLDS

Over the past 20 years, low-income households have suffered sharp declines in income during economic downturns—declines that were not made up for during subsequent recoveries. The result is a long-term increase in the number of low-income households. Since 1974, the total number of households increased by 26.3 percent. At the same time, the number of households with real incomes of less than $5,000 (measured in 1986 dollars) surged from 4.7 million to 7.2 million, an increase of 55.1 percent (Exhibit 9).

The profile of the nation's low- and moderate-income households has changed over the past 20 years due to a complex series of demographic, social, and economic changes. Rapid growth of the young adult population in the 1970s put a squeeze on wage growth for many entry-level jobs. Rising divorce rates and increases in teenage pregnancies have also added to the number of economically disadvantaged single-parent households. The high inflation of the 1970s further eroded the real incomes of those with limited earning power and has continued to outpace the growth of income transfer programs.

Exhibit 9

Household Income and Homeownership

Thousands of 1986 Dollars	Number of Households (In Thousands)		Percent Homeowner	
	1974	1987	1974	1987
Under 5	4,705	7,204	42.8	36.7
5 to 10	8,755	10,984	48.7	45.9
10 to 17.5	11,436	15,326	53.8	51.9
17.5 to 25	11,152	13,063	58.7	60.0
25 to 35	13,277	14,636	69.3	68.3
35 to 50	11,638	14,177	78.6	79.3
50 +	9,891	14,089	86.2	89.1
Total	70,854	89,478	64.7	64.0

SOURCE: Joint Center tabulations of data from the Annual Housing Survey, 1974, and Current Population Survey, 1987.

Measured in real terms, today's young households have lower incomes than their counterparts of 1974. Over this period, the median income of all households remained virtually constant in real terms, but the income of households with heads aged less than 25 fell by 28.7 percent from $18,248 to $13,011, while the income of households with heads aged 25 to 34 fell from $27,366 to $24,230. By contrast, incomes of somewhat older households continued to advance, with the sharpest gains recorded by households with heads aged 65 or older.

The drop in income for young households is largely the result of the alarming situation of single-parent families with children. These households constitute both a growing share of young households and a growing share of the nation's poverty population. Over the past decade and a half, the number of single-parent households with heads aged 25 to 34 more than tripled. In 1987, the median income for households in this group was a meager $9,621—23 percent below the figure recorded for similar households in 1974. For single-parent households with heads aged less than 25, median income in 1987 was $4,688 (see Appendix Tables 6 and 7 for more detailed data on household income by age and family type).

CHARACTERISTICS OF OWNER AND RENTER HOUSEHOLDS

Rental housing is increasingly the home of the nation's lower-income households, while higher-income households increasingly choose to own a home. Since 1974, the homeownership rate fell for households with incomes of less than $10,000 (measured in 1986 dollars). By comparison, the number of homeowners with real incomes above $50,000 grew by 4 million over this period and the homeownership rate increased from 86.2 to 89.1 percent (Exhibit 9).

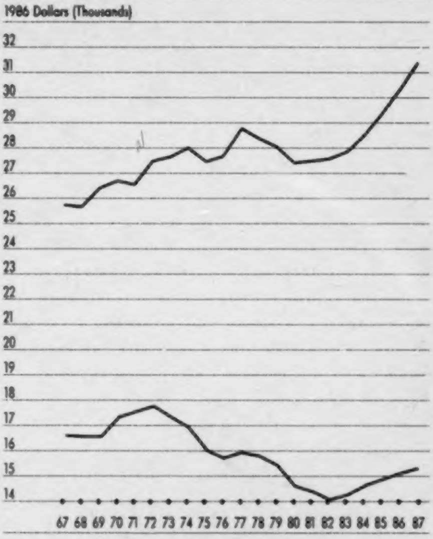
The growth in the number of low-income renter households has widened the income gap between owners and renters. Between 1972 and 1982, the median income of renters fell by 21 percent, from $18,000 to $14,000 (Exhibit 10). With the economic expansion of the mid-1980s, the median renter income did improve slightly, but not enough to reduce poverty among renter households. From 1983 to 1987, the number of poverty-level renter households increased by 300,000 to 7.5 million. By contrast, the number of poverty-level owner households fell by 500,000 to 4.5 million. Thus, by 1987, 63 percent of all poverty-level households lived in rental housing.

As a group, renter households are younger and poorer than homeowners. Since 1974, the median income of renter households aged 25 to 34 fell by 18.5 percent (Exhibit 11), while the median income of renters aged 25 or younger was 25.8 percent lower than real incomes of young renters in the mid-1970s.

Rental housing is also increasingly the home of the nation's children. Between 1974 and 1987, the number of renter households with children grew more than four times faster than the rate for all households. In contrast, the number of young homeowners with children actually fell over the past decade and a half (see Appendix Table 7 for detailed data on households by tenure, age and type).

Exhibit 10

Household Income (In 1986 Dollars)



SOURCE: Median household income indexed by Bureau of Labor Statistics Consumer Price Index (CPI-UX) for All Items. See Appendix I.

Exhibit 11

Households and Household Income By Age And Tenure

Age and Tenure	Number of Households (In Thousands) 1974	1987	Percent Change	Median Income (1986 Dollars) 1974	1987	Percent Change
Owner						
Under 25	1,377	833	39.5%	$23,419	$18,934	-19.2%
25 to 34	7,630	9,237	21.1	31,220	32,006	2.5
35 to 44	8,653	12,507	44.5	35,284	38,044	7.8
45 to 64	18,590	20,404	9.8	30,965	33,218	17.5
65 +	9,593	14,272	48.8	12,730	14,962	17.5
Renter						
Under 25	4,666	4,364	-6.4%	$15,828	$11,737	-25.8%
25 to 34	7,042	11,266	60.0	22,340	18,199	-18.5
35 to 44	3,412	6,196	81.6	21,963	20,357	-8.3
45 to 64	5,731	5,673	-1.1	18,216	15,732	-13.6
65 +	4,160	4,727	13.6	8,485	8,336	-1.7

NOTE: Income data as of prior year

SOURCE: Appendix Table 7

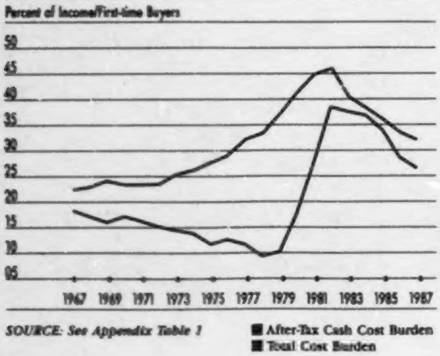
INCOME AND HOUSING COSTS

The relatively low incomes of renter households have important implications for housing in America. Low incomes not only limit the ability of many households to secure adequate and affordable housing in the nonsubsidized private marketplace, they also shrink the pool of potential first-time homebuyers. With the incomes of young renter households failing to keep pace with inflation, the construction and sales of housing targeted to first-time buyers will suffer.

Exhibits 12 and 13 present estimates of owner and renter cost burdens, i.e., the annual cost of a representative unit as a percent of household income. Again, the representative unit for owners has the characteristics of the median-valued home purchased by a first-time buyer in 1977; the representative unit for renters has the characteristics of the median-priced rental unit in 1977.

Exhibit 12

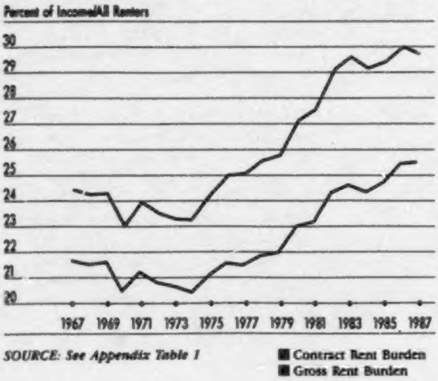
Homeowner Cost Burden



SOURCE: See Appendix Table 1

Exhibit 13

Rental Cost Burden



SOURCE: See Appendix Table 1

Nationwide, the cash cost of owning the representative home was $7,720 last year, or 32.4 percent of the estimated median income of potential first-time homebuyers (proxied here by the income of married-couple renter households aged 25 to 29). For all renters, the median gross rent of the representative unit was $4,368 annually (or $364 per month). While this rent is only 18.3 percent of the median income of married-couple renters aged 25 to 29, it represents almost 30 percent of the median income of all renters.

Although young married-couple renters earn more than other renters, their incomes have not kept pace with homeownership costs. For the representative first-time buyer, the after-tax cash cost of homeownership rose steadily from 23 percent of income in 1970 to 45 percent in 1982. The cash cost burden has declined since 1982, but last year still stood 50 percent above the levels averaged during the late 1960s and early 1970s. Total homeownership costs as a percent of income have also fallen since 1982 but remain high by historical standards.

As might be expected, the cash cost burden of homeownership is highest in the Northeast and West (Exhibit 14). In the Northeast, the incomes of first-time buyers are 24 percent higher than the national average, but the cash cost is 32 percent higher. Household incomes in the West are also above the national average, but above-average cash costs leave potential first-time buyers in the West little better off than their counterparts in the Northeast. Cash cost burdens in the Midwest and South are below average, with lower housing costs more than offsetting lower incomes. Nevertheless, the cash cost burden in each region remains above 1970s levels (see Appendix Tables 2 to 5).

Housing affordability is, of course, a relative concept. Whether housing is affordable or not in 1987 depends on one's point of view. In the face of higher housing costs, households may choose to purchase a smaller home or one with fewer amenities. The figures in Exhibit 12 simply suggest that young households are less able to purchase a home of given standards today than 15 or 20 years ago.

The constant quality rental cost burden —measured as either annual gross rent or contract rent for the representative unit as a percent of median renter income—also remains relatively high (Exhibit 13). The gross rent burden fell slightly from 1967 to 1974, but has moved up sharply since that time. What is striking is that the strong economic recovery that began in 1982 did nothing to alleviate the renter cost burden: increases in real rents have steadily outpaced growth in real income.

Like the homeownership cost burden, the renter cost burden varies geographically. Renters in the West face the largest burden; although the median renter income is above the national average, so too are gross rents. In the Northeast, rents are also above the national average, but relatively high incomes help to reduce the burden. By contrast, rents in the South and Midwest take a somewhat smaller bite out of renter income.

Exhibit 14

Housing Cost Burden By Region: 1987

Region	Income First-time Buyer	Homeowner Cash Cost	Cash Cost Burden	Income All Renters	Gross Rent	Gross Rent Burden
Northeast	$29,600	$10,223	34.5%	$17,000	$397	28.0%
Midwest	22,300	6,929	31.1	14,700	332	27.1
South	22,600	6,581	29.1	15,300	322	25.2
West	25,200	8,680	34.4	17,400	450	31.0
National Total	23,800	7,720	32.4	15,200	377	29.7

SOURCE: Appendix Tables 2 to 5

THE OUTLOOK FOR HOUSEHOLD FORMATION AND HOMEOWNERSHIP

Despite some slowdown, the strong housing demand of the nation's more affluent homeowners should ensure the prosperity of the housing industry for the next 10 years, but the prospects for the housing have-nots are less rosy. In the years ahead, the high housing cost burden will undermine the ability of young adults to form independent households and to purchase their own homes.

HOUSEHOLD FORMATION

After a decade of record growth, household formation rates are expected to decline for the balance of this century. In the 1970s, an average of 1.7 million households were added each year; in the early 1980s, the weak national economy and the high cost of housing combined to reduce the average increase to about 1.2 million. Growth in the number of new households has picked up somewhat since 1983, but remains erratic: the number of households increased by 1.6 million from March 1985 to March 1986, but increased by only 1.0 million from March 1986 to March 1987.

In the years ahead, the aging of the baby-boom generation and the arrival of the baby-bust generation into the prime household formation years (20 to 25) ensure a slowdown in the growth of households. (The baby-boom generation is that large cohort of individuals born in the years 1946 to 1964; the baby-bust generation includes those individuals born from 1965 to 1975, a period of low and declining fertility.) Annual household growth is expected to average 1.45 million from 1985 to 1990 before slowing to 1.21 million per year in the early 1990s and to 1.08 million per year in the late 1990s (see Appendix Table 8 for household forecast to the year 2000).

The long-term trend toward slower household formation primarily reflects the changing age structure of the population. Since the baby-boomers are now between the ages of 23 and 42, most have already passed the prime household formation ages. As the growth of population aged 20 to 25 slows, so too will household formation.

The high cost of owning and renting a home will exacerbate this slowdown. The proportion of any given demographic group that heads its own household (the headship rate) depends critically on the cost of housing. After rising steadily in the 1970s, the headship rate among young adults flattened and then turned down. Since 1980, the headship rate for the population under age 35 has fallen steadily and is now below levels posted in the mid-1970s.

High and rising housing costs seem largely responsible for the recent decline in headship rates. It will take a period of sustained growth in household income, as well as further declines in homeownership costs and rents, to restore the ratio of housing costs to household income to the more affordable levels enjoyed during much of the post-war period. Population growth ensures that the total number of households will increase, but high housing costs will constrain household formation in the years ahead.

Exhibit 15

Percentage of Population Who Head Their Own Households: 1970-1987

Age	1970	1975	1980	1983	1987
15 to 24	11.2%	13.6%	15.9%	14.2%	13.8%
25 to 34	46.9	49.7	50.5	48.6	48.1
35 to 44	50.5	52.5	55.0	55.7	55.6
45 to 54	52.6	54.8	55.8	55.6	57.4
55 to 64	57.6	58.0	58.3	59.5	58.9
65 or Older	61.7	67.5	68.4	68.7	67.9

SOURCE: Joint Center for Housing Studies estimates based on data reported in U.S. Department of Commerce, Current Population Report, Series P-20, Various Issues.

HOUSING DEMAND

In the late 1980s and early 1990s, the aging of the baby-boomers will generate considerable growth in the number of households with heads aged 35 to 44. Many baby-boomers delayed marriage and having children, but now are doing so in sufficient numbers to create a significant increase in the number of married couples and an "echo" baby boom. Not only will many baby-boom households move into a more family-oriented phase of the life cycle during the late 1980s, but they will also pass through their peak earning years, sparking demand for more expensive homes.

The housing market activity of the baby-boom generation has been a key ingredient in the unusually long housing recovery of the past five years. Indeed, even though new housing construction activity is expected to slow in 1988, demand for good-quality, single-family homes should remain strong well into the 1990s as current baby-boom homeowners continue to trade up to better housing. The strong tradeup demand should also support growth of the renovation and repair market as some baby-boomers improve their current housing by repairing or adding to an existing home.

An important factor in this optimistic outlook is that more than half of all baby-boom households already own homes. Many baby-boomers bought homes in the late 1970s and therefore benefited from at least some of the rapid house price appreciation that occurred throughout the country. Unlike younger families still struggling to break into the ownership market, current baby-boom homeowners have the resources —in terms of both income and wealth—to acquire bigger and better housing, or to make substantial investments in their current homes.

RECENT TRENDS IN HOMEOWNERSHIP

Although the percent of households owning their own homes did increase nationwide from 1973 to 1980, this share has since fallen—from 65.6 percent in 1980 to 64.0 percent in 1987. The decline in homeownership is a nationwide phenomenon affecting areas with strong and weak economies alike. As indicated in Exhibit 16, the homeownership rate has fallen off most sharply in the Midwest, though marked declines occurred in the South and the West as well.

Exhibit 16

Homeownership Rates By Region and Age (Percent Homeowner)

	1973	1976	1980	1983	1987
Region					
Northeast	59.2%	59.8%	60.7%	61.4%	61.4%
Midwest	69.1	69.5	70.3	70.0	67.1
South	66.5	66.4	68.3	67.1	66.[illegible]
West	60.6	61.2	60.5	58.7	57.9
Age					
Under 25	23.4%	21.0%	21.3%	19.3%	16.1%
25-29	43.6	43.2	43.3	38.2	35.9
30-34	60.2	62.4	61.1	55.7	53.2
35-39	68.5	69.0	70.8	65.8	63.8
40-44	72.9	73.9	74.2	74.2	70.6
45-54	76.1	77.4	77.7	77.1	75.8
55-64	75.7	77.2	79.3	80.5	80.8
65-74	71.3	72.7	75.2	76.9	78.1
75 +	67.1	67.2	67.8	71.6	70.7
Total	64.4	64.8	65.6	64.9	64.0

SOURCE: 1973 to 1980 from Annual Housing Survey, 1983 to 1987 from Current Population Survey

The growth in the number of elderly homeowners in the Northeast helped offset the effect of declining homeownership rates of young households. Many older households have owned their homes for years and have therefore been insulated from the housing cost inflation of the late 1970s and early 1980s; for these households, rising home prices meant increased wealth in terms of equity in their existing homes.

Renter households, especially young renter households, have had no such buffer against the ravages of inflation. As indicated in Exhibit 16, much of the decline in the homeownership rate has been concentrated among younger households. For households aged 25 to 29, the homeownership rate fell from 43.3 percent in 1980 to 35.9 percent in 1987. Households aged 30 to 39 suffered similarly sharp declines.

For older homeowners, improved health and growing real incomes increased their ability to remain in their homes or to purchase a retirement home. Only in the Midwest have the homeownership rates of the elderly declined along with those of younger households since 1980. The growth of homeownership for households aged 55 or older was a key ingredient in the growth of total homeownership in each of the other regions in the 1970s. Even in recent years, the rising number of elderly homeowners has offset part of the overall decline in homeownership in most regions of the country (see Appendix Table 9).

The decline in homeownership is remarkable for several reasons. First, it occurred during one of the most sustained and vigorous housing recoveries on record. Second, it has reduced the nation's homeownership rate to its lowest level in over 15 years. Third, lower homeownership rates for young adults are found in all regions of the country, not just the high-cost Northeast or West. Since 1983, homeownership among young households has declined in the oil-producing states, the farm belt and the rust belt, as well as New England, the Mid and South Atlantic and the Pacific Coast states. Apparently, the continuing high after-tax cash cost of homeownership and the growing rental payments burden are preventing renters in all regions of the country from accumulating the resources needed to make the downpayment and meet the initial year carrying costs of homes of their own.

HOUSING THE NATION'S POOR

Over the past two decades, slower real income growth and higher real housing costs have exacerbated the problems of low- and moderate-income households. Gross rent as a share of income rose sharply from 1974 to 1982 and remains at historically high levels. Even when paying a large share of their incomes for rent, many households still live in poor-quality housing. In 1983, the most recent year for which data are available, 5 million renter households—or one in six—lived in structurally inadequate dwelling units. Low- and moderate-income homeowners are also not immune to the problem: in that same year, 4.5 million owners, primarily residing in small cities and towns and outlying rural areas, lived in units classified as structurally inadequate.

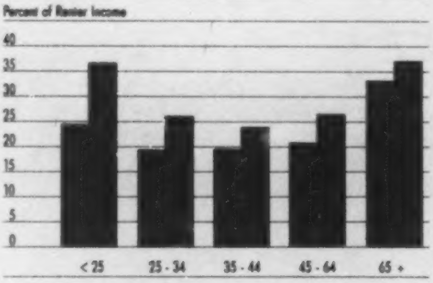
RENTAL PAYMENTS BURDEN

The incidence of high rental burdens has increased, particularly among the young. In 1974, the gross rent burden (estimated as the ratio of median rent to income) for households with heads aged 25 to 34 was 18.7 percent; by 1983, the burden had reached 25.4 percent (Exhibit 17). Households with heads under the age of 25 experienced even sharper increases.

As noted earlier, rental housing is increasingly becoming home to low- and moderate-income families with children, especially single-parent households. From 1974 to 1987, the number of married couples aged 25 to 34 with children who rented their housing increased from 2.7 million to 3.2 million (Exhibit 18). At the same time, the number of single-parent families (primarily women with children) nearly doubled from 1.2 million to 2.2 million.

Exhibit 17

Gross Rental Cost Burden by Age (Gross Rent as Percent of Renter Income)



SOURCE: See Appendix Table II ■ 1974 ■ 1987

Exhibit 18 makes clear why the rental payments burden is increasingly a problem for young households: the median income of young single-parent renter households with children fell 34 percent from $10,965 in 1974 to $7,271 in 1987. With shrinking incomes and growing rents, the increase in rent burden for this type of family is inevitable. Since families with children require larger apartments than single adults or married couples with no children, they are particularly vulnerable in periods of high and rising rents. The rent burden for young single-parent families with children thus increased from 34.9 percent to 58.4 percent over this period.

Exhibit 18

Changes in Rental Burden for Selected Household Types

Age and Family Type	Households (In Thousands)		Income (1986 Dollars)		Gross Rent Burden	
	1974	1987	1974	1987	1974	1987
Householder Aged 25 to 34						
Single	1,510	2,963	20,623	17,817	19.2%	24.7%
Married Couple With Children	2,673	3,234	24,160	20,899	17.1%	21.9%
Married Couple No Children	1,195	1,412	32,059	29,028	14.3%	17.5%
Single Parent With Children	1,157	2,213	10,965	7,271	34.9%	58.4%
Other Households	507	1,444	20,908	19,098	22.7%	27.5%
Householder Aged 65 or Older						
Single	2,572	3,281	6,300	6,409	38.6%	42.1%
Married Couple	1,124	984	12,379	13,766	29.4%	29.0%
Other Households	464	462	11,160	10,457	27.5%	32.8%

NOTE: Income data as of prior year

SOURCE: Appendix Table 11

Elderly households continue to devote relatively large shares of their income to rent, but unlike their younger counterparts, the real income of elderly renters has not declined sharply. Indeed, elderly married-couple households enjoyed a slight increase in real income thanks to the indexation of Social Security payments against inflation.

It is important to note that the figures cited here refer to the rent burden for a dwelling unit of constant quality. To the extent that households choose to consume more or fewer housing services, the actual burden may differ. With rents in general rising relative to income, most low- and moderate-income households have been forced to cut back on their housing consumption—if they have been able to form independent households at all.

Moreover, since the homeless are not counted as households by the Census Bureau, the data in Exhibit 18 may actually understate the current payments problem. There are no reliable national figures on the homeless, but their number appears to have grown in recent years, especially among families with children. While further investigation into the causes of homelessness is clearly warranted, the data in Exhibit 18 should leave little doubt that the rising rental payments burden is a major contributing factor.

TRENDS IN HOUSING QUALITY

By some simple measures, America's housing has steadily improved for the past 40 years. For example, the proportion of units lacking some or all plumbing has fallen from 40 percent to just 2 percent. The American Housing Survey (formerly the Annual Housing Survey), however, takes a much more comprehensive look at housing conditions, providing data on some 25 housing deficiencies, including the presence or absence of plumbing fixtures, heating equipment, and other mechanical subsystems, as well as information on the repair and upkeep of properties.

The composite index of housing quality shown in Exhibit 19 indicates that the percentage of renter households living in inadequate housing declined from 15.5 percent to 12.8 percent between 1974 and 1983. While the incidence of inadequacy has been significantly reduced, improvement primarily reflects growth in the total housing supply rather than reduction in the stock of inadequate dwelling units. Accordingly, the number of inadequate dwelling units, though down somewhat in percentage terms, remains high in absolute terms. Thus in 1983, 4.5 million owners and 5.0 million renters continued to occupy structurally inadequate housing.

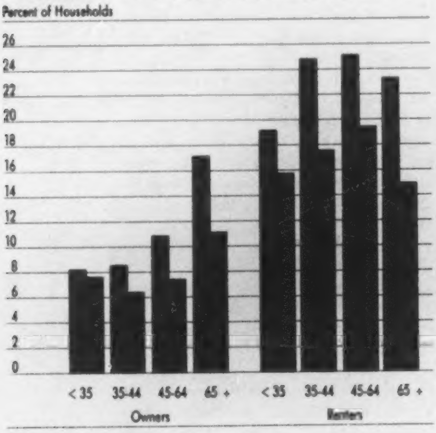
Poor-quality housing is clearly a continuing problem for the growing number of young families and other low-income households. In 1983, 26 percent of renter households with real incomes below $5,000 occupied structurally inadequate housing; in absolute terms, this means that the number of low-income households living in such conditions increased from 1 million in 1974 to 1.2 million in 1983. During the same period, the number of young single-parent households living in inadequate housing rose from 374,000 to 484,000.

Housing inadequacy is most prevalent in inner cities and in outlying rural areas, where concentrations of low-income households are high. In 1983, 1.7 million renters lived in inadequate housing located in central city locations, while another 945,000 renters occupied inadequate housing located in outlying rural areas.

While the share of renters living in inadequate housing is more than twice as high, the share of low-income owners occupying inadequate units is also a problem, particularly in outlying areas. In 1983, 1.9 million or 14 percent of all homeowners in nonmetropolitan rural areas lived in inadequate dwelling units (Exhibit 20). This represents a slight improvement from the 2.1 million figure of 1974, but housing inadequacy in rural areas clearly persists.

Exhibit 19

Percent Households in Inadequate Units (By Age and Tenure)



SOURCE: See Appendix Table 12. ■ 1974 ■ 1983

Exhibit 20

Number and Percent of Households Living in Inadequate Housiv By Urban/Rural Status

Location	Owners				Renters			
	Number Inadequate (in thousands)		Percent Inadequate		Number Inadequate (in thousands)		Percent Inadequate	
	1974	1983	1974	1983	1974	1983	1974	1983
Large Central Cities	687	600	8.2%	6.5%	1,947	1,746	20.8%	17.2%
Other Urban Metro	1,038	889	6.2%	4.6%	1,215	1,307	14.7%	12.3%
Fringe Metro Rural	533	514	11.3%	7.4%	342	295	26.4%	15.8%
Non-Metro Urban	781	585	13.7%	9.4%	881	730	28.1%	20.4%
Non-Metro Rural	2,119	1,888	20.5%	14.2%	1,129	945	38.3%	25.5%
All	5,158	4,476	11.3%	8.2%	5.514	5,023	22.0%	18.7%

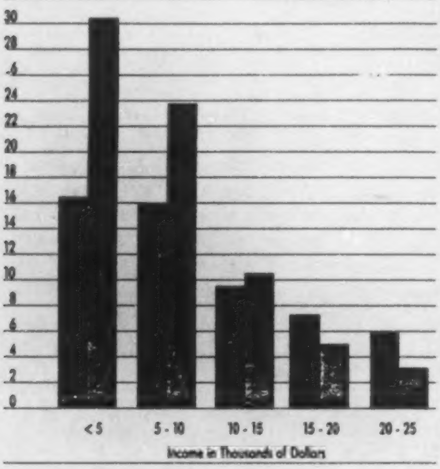
SOURCE: Special tabulations of the Annual Housing Survey, 1974 and 1983.

LOW-INCOME HOUSING ASSISTANCE

Housing assistance efforts have done much in the past to improve the housing situations of low-income households. Eligibility varies from one program to the next, but in general federal rental assistance programs aid households with incomes at or below 80 percent of the area median. It is surprisingly difficult, however, to obtain estimates of the characteristics of households actually served by these programs. The Department of Housing and Urban Development estimates that there now are approximately 4.2 million units of public or otherwise federally subsidized rental housing, but provides no demographic data describing the characteristics of the households living in these units. Absent detailed HUD data, this paper utilizes survey based estimates that differ slightly from the HUD estimates of total households served, but have the advantage of providing needed information on the characteristics of the households living in subsidized rental units.

Exhibit 21

Rental Assistance By Household Income (As Percent of Rental Households)



SOURCE: Joint Center tabulation of 1974 Annual Housing Survey and 1987 Current Population Survey data.

By any measure, the Housing and Community Development Act of 1974 sparked a major expansion in the number of households receiving rental assistance. According to the March 1987 Current Population Survey, 3.8 million households (consisting of 8.9 million persons) lived in public housing or rental housing otherwise subsidized by the federal government. While this growth has virtually stopped in the past several years, the 1987 figure is up nearly 73 percent from the 2.2 million recorded by the 1974 Annual Housing Survey.

Much of the increase in housing assistance resources has gone to aid households at the lowest end of the income distribution. Among renter households with real incomes below $5,000, the proportion living in subsidized housing nearly doubled between 1974 and 1987 (Exhibit 21). Households with incomes in the $5,000 to $10,000 range experienced somewhat more modest gains in the share subsidized.

Nevertheless, existing programs serve only a small fraction of eligible low-income households. According to the Current Population Survey for 1987, just 11.8 percent of all renter households received housing assistance. Even among renter households with incomes below $5,000, less than one-third received subsidies. Of those with incomes in the $5,000 to $10,000 range, less than one-quarter were assisted.

Given the variation in housing requirements of households of different types and ages, income alone is a poor measure of the ability of a household to secure adequate housing in the private nonsubsidized market. Federal poverty definitions define the income required by various types of households to consume adequate levels of housing, food, and other necessities. By this measure, only 2.1 million (or 28 percent) of the nation's 7.5 million poverty-level renter households lived in public housing or other subsidized rental housing last year. Among the near-poverty-level renters (households with incomes above poverty level, but less than two times that level), participation was only 19.8 percent.

Whether or not these data reflect appropriate targeting of resources is, of course, a political judgment. It is clear, however, that the growth of housing assistance resources has failed to keep pace with the growth of low-income renter households. In 1974, 2.2 million renter households with incomes below $5,000 received no housing assistance. By 1987, this pool of eligible but unassisted renter households had grown to 3.2 million. Among households with incomes in the $5,000 to $10,000 range, the number of households receiving no rental assistance grew from 3.8 million to 4.5 million.

With at best only 4.2 million assisted renter housing units available, changes in the targeting of assisted renter housing alone will be insufficient to deal with the housing problems of the renter households living in poverty; there simply are more low-income households than assisted rental units. Moreover, nearly 4.4 million poverty-level households own their homes. Housing problems for this group are especially acute in low-density rural areas where the lack of a well-developed rental housing market results in high shares of households owning substandard housing.

Although more careful targeting could make better use of existing housing assistance resources, the development of new program initiatives and the expansion of national housing assistance resources are needed if the nation is to improve the housing conditions of both low-income owners and renters.

CONCLUSION

The health of the housing industry has deflected national attention from the critical problems of first-time homebuyers, disadvantaged renters, and homeless families and individuals. With rental vacancy rates at record levels, it may appear that there is no shortage of housing. With mortgage interest rates down from their peak levels of the early 1980s, it may appear that homeownership is once again an affordable option for many young households. With renovation and repair expenditures setting new records each year, it may appear that the nation's housing inventory of existing units is being well maintained and preserved.

Yet these conclusions bear little relationship to the realities of the state of the nation's housing. Despite the noticeable reductions in homeowner costs in recent years, homeownership rates among young households continue to fall. Despite high levels of new construction and equally high levels of housing rehabilitation expenditures, the supply of low-cost rental housing continues to shrink. Only one in four renter households with incomes at or below the poverty level lives in public or other subsidized housing. Some 5.4 million poverty-level renter households are left to compete for the dwindling supply of low-cost rental housing available in the private market. The result is further tightening at the low end of the rental housing market, and a growing rental payments burden for low- and moderate-income households.

For decades, moving to better housing has been an important ingredient in the upward mobility of American households. This report depicts the situation of many households who, rather than continuing to move up the ladder of housing progress, have stalled along the way. There is no single housing problem in America, but a series of problems that confront a wide range of household types. Improving the state of the nation's housing will require the concerted efforts of all levels of government and all housing providers. The problems of the nation's housing have-nots merit such special attention.

APPENDIX

Appendix Table 1

Income and Housing Cost, U.S. Totals: 1967-1987.

Year	Income[1]			Owner Cost[2]						Renter Cost[3]		Cost in 1986 Dollars[4]				Cost as Percent of Income[5]			
																First-Time Buyers		All Renters	
	Total Owner	Total Renter	Young Renter	House Price	Mortgage Rate	Mortgage Payment	Other Costs	After Tax Cash	Total Cost	Contract Rent	Gross Rent	Total After Tax	Real Total Cost	Contract Rent	Gross Rent	Cash Burden	Total Burden	Contract Rent Burden	Gross Rent Burden
1967	$ 8,300	$ 5,300	$ 8,800	$14,530	6.40%	$1,074	$ 900	$1,700	$1,445	$ 94	$100	$5,975	$4,435	$298	$255	22.2%	18.2%	20.4%	24.4%
1968	$ 8,500	$ 5,500	$ 8,300	$17,400	6.90%	$1,180	$ 938	$1,891	$1,413	$ 99	$111	$5,496	$4,180	$265	$322	22.0%	17.0%	21.5%	24.7%
1969	$ 9,300	$ 5,700	$ 8,600	$18,400	7.40%	$1,309	$ 971	$2,048	$1,354	$102	$115	$5,730	$3,706	$237	$322	24.0%	15.7%	21.4%	24.3%
1970	$ 9,700	$ 6,300	$ 9,500	$19,244	8.30%	$1,467	$ 935	$2,395	$1,423	$106	$113	$3,864	$4,371	$265	$329	23.7%	17.0%	20.5%	23.0%
1971	$10,000	$ 6,400	$ 9,900	$20,300	7.50%	$1,482	$ 990	$2,331	$1,500	$110	$100	$5,913	$4,077	$290	$337	23.3%	16.7%	21.2%	23.9%
1972	$10,700	$ 6,900	$10,400	$20,611	7.20%	$1,535	$1,009	$2,440	$1,564	$108	$100	$6,040	$3,871	$290	$330	23.5%	15.0%	20.7%	23.5%
1973	$11,500	$ 7,300	$10,700	$22,490	7.85%	$1,720	$1,119	$2,705	$1,583	$114	$140	$6,286	$3,546	$288	$335	25.3%	14.7%	20.7%	23.3%
1974	$12,800	$ 7,700	$11,900	$25,460	8.70%	$2,003	$1,232	$3,100	$1,596	$111	$149	$6,546	$3,370	$276	$356	26.0%	12.4%	20.5%	23.3%
1975	$13,400	$ 7,900	$12,300	$28,422	8.97%	$2,300	$1,340	$3,464	$1,402	$119	$160	$6,600	$2,720	$271	$330	27.0%	11.4%	21.1%	24.3%
1976	$14,500	$ 8,200	$12,600	$30,060	8.90%	$2,494	$1,457	$3,660	$1,350	$124	$171	$6,742	$2,877	$272	$385	29.1%	12.3%	21.4%	25.0%
1977	$16,000	$ 8,800	$13,300	$34,800	8.82%	$2,775	$1,567	$4,200	$1,496	$130	$186	$7,438	$2,480	$274	$397	32.2%	11.3%	21.5%	25.1%
1978	$16,800	$ 9,300	$14,400	$39,866	9.40%	$3,300	$1,673	$4,886	$1,200	$140	$198	$7,845	$2,086	$278	$304	33.4%	8.7%	21.9%	25.0%
1979	$18,300	$10,000	$15,200	$45,500	10.67%	$4,300	$1,775	$5,609	$1,400	$154	$185	$8,200	$2,147	$272	$386	37.0%	9.5%	22.1%	25.8%
1980	$19,800	$10,500	$16,300	$50,530	12.53%	$5,344	$1,980	$6,705	$2,732	$182	$230	$8,900	$3,448	$270	$390	41.1%	16.6%	22.1%	27.2%
1981	$21,800	$11,400	$17,700	$54,775	14.5%	$6,580	$2,304	$7,872	$4,799	$221	$262	$9,536	$5,846	$269	$319	44.9%	27.7%	23.2%	27.6%
1982	$23,300	$11,800	$18,400	$56,302	14.70%	$6,844	$2,390	$8,309	$4,883	$239	$286	$9,399	$7,904	$275	$339	45.4%	27.4%	24.3%	29.7%
1983	$24,400	$12,400	$19,400	$57,504	12.39%	$5,993	$2,404	$7,767	$7,319	$255	$306	$8,500	$7,846	$280	$337	40.5%	26.7%	24.7%	29.6%
1984	$26,100	$13,300	$20,000	$59,833	12.04%	$6,102	$2,617	$8,000	$7,630	$270	$314	$8,438	$8,007	$286	$342	38.5%	26.7%	24.4%	29.2%
1985	$27,800	$14,000	$20,900	$60,387	11.10%	$5,900	$2,694	$7,948	$7,376	$280	$343	$8,100	$7,375	$295	$300	36.5%	33.7%	24.8%	29.4%
1986	$29,300	$14,500	$22,700	$64,867	9.80%	$5,560	$2,696	$7,691	$6,433	$288	$342	$7,691	$6,433	$288	$362	33.7%	28.3%	25.5%	30.0%
1987	$30,400	$15,200	$23,800	$66,806	8.97%	$5,487	$2,736	$7,730	$6,235	$324	$377	$7,449	$6,006	$312	$364	32.4%	26.3%	25.5%	29.7%

1. Annual income of families and primary individuals. Annual Housing Survey, various years. Young renters defined as married couple renters aged 25 to 29.

2. House price is Annual Housing Survey median value of house purchased by first-time home buyer aged 25-29 in 1977, indexed by Department of Census, Construction Reports C-27 Constant Quality Home Price Index. Mortgage Rates equal Federal Home Loan Bank Board contract mortgage rate. Mortgage Payments assume 25 year mortgage with 20% down. Other Costs include property tax, insurance, fuel and utilities, and maintenance. After-Tax Cash-Cost equals Mortgage Payment plus Other Costs, less tax savings of homeownership. Total Cost equals After-Tax Cash-Cost plus opportunity cost of down payment, amortization of fees and closing costs, less expected equity buildup. Cost data are 1977 Annual Housing Survey data indexed by Bureau of Labor Statistics Consumer Price Indices for various components of housing cost.

3. Contract Rent equals median 1977 Contract Rent indexed by Joint Center for Housing Studies Contract Rent Index adopted from data from the Bureau of Labor Statistics Index of Residential Rent. Gross Rent equals Contract Rent plus fuel and utilities, property taxes and insurance.

4. Housing Cost expressed in 1986 constant dollars using Bureau of Labor Statistics Consumer Price Index (CPI-UXI) for All Items.

5. First Time Buyer Cost Burden is cost as a percent of income of potential homebuyer proxied by median family income of married couple renters aged 25 to 29. Renter Cost Burden is annual rental payments as percent of median income of all renters.

Appendix Table 2

Income and Housing Cost, Northeast Region: 1967-1987

Year	Income			Owner Cost						Renter Cost		Cost in 1986 Dollars				Cost as Percent of Income			
																First-Time Buyers		All Renters	
	Total Owner	Total Renter	Young Renter	Home Price	Mortgage Rate	Mortgage Payment	Other Costs	After Tax Cash	Total Cost	Contract Rent	Gross Rent	Real After Tax	Real Total Cost	Contract Rent	Gross Rent	Cash Burden	Total Burden	Contract Rent Burden	Gross Rent Burden
1967	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1968	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1969	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1970	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1971	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1972	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1973	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1974	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1975	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1976	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1977	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1978	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1979	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1980	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1981	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1982	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1983	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1984	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1985	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1986	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1987	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Appendix Table 3

Income and Housing Cost, Midwest Region: 1967-1987

Year	Income			Owner Cost						Renter Cost		Cost in 1986 Dollars				Cost as Percent of Income			
																First-Time Buyers		All Renters	
	Total Owner	Total Renter	Young Renter	Home Price	Mortgage Rate	Mortgage Payment	Other Costs	After Tax Cash	Total Cost	Contract Rent	Gross Rent	Real After Tax	Real Total Cost	Contract Rent	Gross Rent	Cash Burden	Total Burden	Contract Rent Burden	Gross Rent Burden
1967	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1968	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1969	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1970	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1971	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1972	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1973	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1974	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1975	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1976	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1977	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1978	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1979	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1980	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1981	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1982	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1983	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1984	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1985	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1986	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1987	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Appendix Table 4

Income and Housing Cost, South Region: 1967-1987

Year	Income			Owner Cost						Renter Cost		Cost in 1986 Dollars				Cost as Percent of Income			
																First-Time Buyers		All Renters	
	Total Owner	Total Renter	Young Renter	Home Price	Mortgage Rate	Mortgage Payment	Other Costs	After Tax Cash	Total Cost	Contract Rent	Gross Rent	Real After Tax	Real Total Cost	Contract Rent	Gross Rent	Cash Burden	Total Burden	Contract Rent Burden	Gross Rent Burden
1967	$ 6,800	$ 4,700	$ 7,400	$13,396	6.49%	$ 980	$ 677	$1,484	$1,292	$ 85	$105	$4,843	$4,300	$256	$304	22.8%	19.1%	20.7%	25.7%
1968	$ 7,300	$ 4,900	$ 7,700	$15,880	6.97%	$1,078	$ 700	$1,703	$1,375	$ 87	$103	$4,965	$3,993	$253	$300	22.1%	17.9%	21.0%	25.0%
1969	$ 7,700	$ 5,000	$ 8,000	$16,699	7.49%	$1,132	$ 731	$1,800	$1,324	$ 90	$106	$5,173	$3,704	$252	$298	22.4%	16.7%	21.4%	25.4%
1970	$ 8,300	$ 5,400	$ 8,700	$17,404	8.29%	$1,279	$ 773	$1,943	$1,490	$ 94	$111	$5,199	$3,946	$248	$294	22.4%	17.1%	20.8%	24.6%
1971	$ 8,900	$ 5,600	$ 9,000	$18,800	7.54%	$1,314	$ 837	$2,080	$1,341	$ 98	$117	$5,325	$3,177	$250	$299	22.1%	15.8%	21.0%	25.0%
1972	$ 9,300	$ 6,300	$ 9,800	$19,900	7.38%	$1,418	$ 887	$2,194	$1,380	$102	$121	$5,418	$3,177	$252	$300	22.4%	13.1%	20.0%	23.9%
1973	$ 9,800	$ 6,600	$10,700	$21,295	7.82%	$1,571	$ 948	$2,433	$1,470	$106	$126	$5,630	$3,416	$246	$294	22.4%	13.7%	19.3%	23.0%
1974	$10,160	$ 7,300	$11,400	$22,900	8.70%	$1,839	$1,054	$2,765	$1,673	$112	$135	$5,840	$3,534	$236	$285	24.3%	14.7%	18.9%	23.0%
1975	$11,800	$ 7,400	$12,000	$25,375	8.97%	$2,053	$1,134	$3,049	$1,479	$118	$145	$5,940	$2,880	$229	$282	25.8%	12.5%	19.2%	23.5%
1976	$12,700	$ 7,700	$12,800	$27,667	8.90%	$2,186	$1,235	$3,239	$1,446	$127	$156	$5,964	$2,800	$230	$287	27.0%	13.7%	19.7%	24.3%
1977	$13,800	$ 8,300	$13,300	$29,700	8.83%	$2,385	$1,300	$3,745	$1,836	$136	$169	$6,499	$3,187	$236	$293	28.4%	14.9%	19.9%	24.7%
1978	$14,900	$ 8,800	$14,800	$33,323	9.48%	$2,802	$1,446	$4,192	$1,783	$146	$180	$6,844	$2,910	$238	$294	29.9%	13.7%	19.9%	24.5%
1979	$16,300	$ 9,700	$14,500	$38,165	10.67%	$3,338	$1,540	$4,899	$1,444	$158	$195	$7,202	$2,444	$234	$289	33.8%	11.5%	19.6%	24.3%
1980	$17,800	$10,300	$15,700	$42,887	12.53%	$4,533	$1,701	$5,839	$2,338	$174	$216	$7,799	$3,336	$232	$289	37.3%	14.9%	20.3%	25.2%
1981	$19,400	$11,200	$16,900	$47,846	14.39%	$5,432	$1,897	$6,878	$3,844	$190	$240	$8,376	$4,680	$230	$292	40.7%	22.7%	20.4%	25.7%
1982	$20,600	$12,400	$18,800	$48,975	14.70%	$5,900	$2,062	$7,266	$5,509	$207	$263	$8,447	$6,326	$238	$302	39.1%	29.7%	19.7%	25.0%
1983	$21,700	$12,700	$18,800	$49,896	12.29%	$5,172	$2,160	$6,802	$4,897	$220	$280	$7,530	$4,730	$242	$300	36.3%	32.4%	20.8%	26.4%
1984	$23,800	$13,400	$20,300	$51,479	12.08%	$5,266	$2,260	$7,085	$4,743	$231	$293	$7,487	$7,142	$243	$309	34.9%	33.6%	20.3%	21.9%
1985	$24,100	$14,300	$21,000	$52,985	11.18%	$5,099	$2,324	$6,939	$4,578	$242	$306	$7,180	$4,711	$247	$312	33.9%	31.3%	20.3%	25.8%
1986	$25,600	$14,600	$21,600	$54,113	9.87%	$4,696	$2,343	$6,480	$4,197	$254	$317	$6,600	$4,197	$254	$317	30.9%	30.7%	20.9%	26.1%
1987	$27,600	$15,300	$22,400	$55,142	8.93%	$4,466	$2,365	$6,581	$4,343	$269	$327	$6,353	$4,120	$258	$316	29.1%	28.1%	20.4%	25.2%

Appendix Table 5

Income and Housing Cost, West Region: 1967-1987

Year	Income			Owner Cost						Renter Cost		Cost in 1986 Dollars				Cost as Percent of Income			
																First-Time Buyers		All Renters	
	Total Owner	Total Renter	Young Renter	Home Price	Mortgage Rate	Mortgage Payment	Other Costs	After Tax Cash	Total Cost	Contract Rent	Gross Rent	Real After Tax	Real Total Cost	Contract Rent	Gross Rent	Cash Burden	Total Burden	Contract Rent Burden	Gross Rent Burden
1967	$ 8,700	$ 5,400	$ 8,200	$18,388	6.49%	$1,100	$ 796	$1,878	$ 1,704	$104	$120	$ 5,672	$ 5,387	$303	$341	23.0%	22.0%	23.0%	25.7%
1968	$ 9,300	$ 5,600	$ 8,500	$18,747	6.98%	$1,375	$ 888	$1,969	$ 1,830	$109	$118	$ 5,707	$ 5,385	$305	$343	23.2%	21.5%	23.3%	25.3%
1969	$10,000	$ 5,800	$ 8,900	$20,463	7.48%	$1,491	$ 867	$2,172	$ 1,447	$114	$124	$ 6,073	$ 4,046	$320	$347	23.0%	15.7%	23.7%	25.7%
1970	$10,700	$ 6,300	$ 9,600	$20,975	8.27%	$1,596	$ 946	$2,294	$ 1,715	$120	$130	$ 6,077	$ 4,543	$305	$352	20.4%	17.5%	23.0%	24.5%
1971	$11,000	$ 6,400	$ 9,900	$21,579	7.54%	$1,555	$ 979	$2,378	$ 1,036	$127	$138	$ 6,086	$ 4,700	$325	$350	24.0%	18.5%	23.7%	25.7%
1972	$11,800	$ 7,000	$10,500	$22,710	7.38%	$1,610	$1,009	$2,56	$ 1,065	$132	$143	$ 6,229	$ 4,407	$326	$354	24.0%	17.5%	22.6%	24.5%
1973	$12,700	$ 7,500	$11,300	$25,703	7.82%	$1,900	$1,085	$2,838	$ 1,237	$138	$150	$ 6,549	$ 2,830	$321	$349	25.0%	10.8%	22.1%	24.7%
1974	$14,100	$ 7,400	$11,800	$29,086	8.70%	$2,327	$1,174	$3,309	$ 914	$148	$161	$ 6,900	$ 1,930	$321	$340	27.7%	7.7%	21.3%	23.5%
1975	$15,100	$ 8,000	$11,500	$32,690	8.97%	$2,616	$1,282	$3,685	$ 685	$157	$173	$ 7,040	$ 1,327	$306	$336	31.5%	5.9%	21.5%	25.9%
1976	$16,300	$ 8,500	$12,300	$36,270	8.90%	$2,932	$1,374	$3,946	$ 852	$167	$184	$ 7,267	$ 1,548	$307	$339	32.3%	7.0%	23.5%	26.0%
1977	$17,800	$ 9,300	$12,700	$43,900	8.83%	$3,445	$1,487	$4,726	$ 192	$179	$198	$ 8,279	$ 332	$311	$344	37.3%	1.5%	23.6%	26.9%
1978	$18,900	$ 9,700	$13,300	$50,027	9.48%	$4,375	$1,577	$5,449	($440)	$196	$216	$ 8,938	($600)	$320	$352	41.1%	-3.7%	24.2%	26.7%
1979	$20,500	$10,800	$15,000	$58,519	10.67%	$5,403	$1,640	$6,482	$ 154	$217	$238	$ 9,596	$ 228	$321	$352	43.3%	1.0%	24.7%	26.5%
1980	$22,700	$11,900	$16,400	$64,103	12.53%	$4,997	$1,871	$7,955	$ 1,084	$240	$270	$10,587	$ 2,510	$322	$360	48.3%	11.5%	25.7%	28.9%
1981	$24,900	$12,900	$16,900	$70,699	14.39%	$8,404	$2,000	$9,243	$ 5,385	$268	$299	$11,256	$ 6,455	$326	$365	50.0%	28.7%	24.9%	27.9%
1982	$26,900	$13,400	$17,300	$71,386	14.70%	$8,778	$2,200	$9,739	$ 8,580	$290	$336	$11,483	$ 9,764	$337	$379	50.5%	44.7%	26.3%	29.6%
1983	$28,000	$13,000	$20,000	$73,700	12.29%	$7,678	$2,345	$8,999	$ 8,580	$304	$353	$ 9,999	$ 9,346	$346	$390	45.0%	41.9%	27.3%	30.7%
1984	$30,700	$15,300	$22,500	$73,309	12.08%	$7,485	$2,483	$9,082	$10,062	$338	$380	$ 9,585	$10,625	$367	$411	48.0%	44.7%	26.3%	29.4%
1985	$32,400	$16,000	$22,300	$75,567	11.18%	$7,371	$2,562	$8,937	$ 9,083	$366	$409	$ 9,310	$ 9,286	$374	$418	38.5%	39.0%	27.5%	30.7%
1986	$34,300	$16,400	$24,100	$78,270	9.87%	$6,704	$2,590	$8,630	$7,783	$391	$423	$ 8,630	$ 7,782	$391	$423	35.0%	32.3%	28.5%	31.3%
1987	$36,400	$17,400	$25,300	$82,385	8.93%	$6,664	$2,618	$8,680	$6,717	$408	$450	$ 8,375	$ 6,480	$394	$434	34.4%	26.7%	28.1%	31.0%

Appendix Table 6

Households and Household Income By Age And Type

Age and Household Type	Number of Households (In Thousands) 1974	1987	Percent Change	Median Income (1986 Dollars) 1974	1987	Percent Change
Household Head Under 25						
Single	1,136	1,252	10.2%	$11,848	$11,994	1.2%
Married With Children	1,709	929	-45.6%	20,908	15,233	-27.1%
Married No Children	1,825	909	-50.2%	23,347	20,401	-12.6%
Single Parent With Children	540	832	54.1%	7,332	4,688	-36.0%
Other Households	833	1,275	53.1%	13,101	11,400	-13.0%
TOTAL	6,043	5,197	-14.0%	18,248	13,011	-28.7%
Household Head 25 to 34						
Single	1,810	3,858	113.1%	20,931	18,920	-9.6%
Married With Children	8,368	8,723	4.2%	28,843	28,850	0.1%
Married No Children	2,268	3,070	35.4%	35,020	35,802	2.2%
Single Parent With Children	1,603	2,859	78.4%	12,545	9,621	-23.3%
Other Households	623	1,993	219.9%	22,388	21,524	-3.9%
TOTAL	14,672	20,503	39.7%	27,366	24,230	-11.5%
Household Head 35 to 44						
Single	963	2,[illegible]	174.4%	20,908	23,624	13.0%
Married With Children	8,217	9,873	20.2%	34,922	37,800	8.2%
Married No Children	1,055	2,169	105.6%	35,192	42,515	20.9%
Single Parent With Children	1,416	2,701	90.7%	16,027	17,444	8.9%
Other Households	414	1,318	218.4%	23,101	26,211	13.5%
TOTAL	12,065	18,703	55.0%	32,291	31,831	-1.4%
Household Head 45 to 64						
Single	2,867	3,329	16.1%	12,080	13,050	8.0%
Married With Children	7,342	5,349	-27.1%	35,543	38,038	7.0%
Married No Children	9,192	11,429	24.3%	31,826	35,902	12.8%
Single Parent With Children	1,403	1,658	18.2%	16,824	16,896	0.4%
Other Households	7,157	7,844	9.6%	20,197	19,668	-2.6%
TOTAL	18,590	20,324	9.3%	27,877	28,819	3.8%
Household Head 65 or Older						
Single	3,353	5,257	56.8%	6,889	7,881	14.4%
Married	6,164	8,386	36.0%	15,911	18,265	14.8%
Other Households	5,826	6,798	16.7%	13,788	14,406	4.5%
TOTAL	15,343	20,441	33.2%	10,874	12,959	19.2%

NOTE: Income data as of prior year

SOURCE: U.S. Department of Housing and Urban Development, Annual Housing Survey, 1974, and U.S. Department of Commerce, Current Population Survey, March 1987.

Appendix Table 7

Households and Household Income By Age, Tenure And Household Type

	Owner				Renter			
	Number (In Thousands)		Median Income (1986 Dollars)		Number (In Thousands)		Median Income (1986 Dollars)	
	1974	1987	1974	1987	1974	1987	1974	1987
Household Head Under 25								
Single	81	142	$13,099	$14,307	1,055	1,110	$11,732	$12,437
Married With Children	658	270	23,231	17,822	1,051	659	18,608	13,690
Married No Children	507	250	26,715	26,196	1,318	659	22,325	17,879
Single Parent With Children	48	52	11,523	8,920	492	780	7,248	4,581
Other Households	83	119	21,721	16,099	750	1,156	11,906	11,279
TOTAL	1,377	833	23,419	18,934	4,666	4,364	15,828	11,737
Household Head 25 to 34								
Single	300	895	24,160	22,604	1,510	2,963	20,623	17,817
Married With Children	5,695	5,489	31,362	32,839	2,673	3,234	24,160	20,899
Married No Children	1,073	1,658	38,563	41,126	1,195	1,412	32,059	29,028
Single Parent With Children	446	646	16,954	17,302	1,157	2,213	10,965	7,271
Other Households	116	549	29,461	28,769	507	1,444	20,908	19,098
TOTAL	7,630	9,237	31,220	32,006	7,042	11,266	22,340	18,199
Household Head 35 to 44								
Single	269	933	23,312	27,512	694	1,709	19,282	19,934
Married With Children	6,765	8,020	37,055	40,146	1,452	1,853	26,715	23,793
Married No Children	723	1,603	37,169	48,020	332	566	30,200	29,749
Single Parent With Children	692	1,312	22,525	22,902	724	1,389	12,665	12,988
Other Households	204	639	28,913	33,114	210	679	16,999	19,280
TOTAL	8,653	12,507	35,284	38,044	3,412	6,196	21,963	20,357
Household Head 45 to 64								
Single	1,955	2,642	12,974	15,691	2,091	2,223	11,615	10,341
Married With Children	5,750	4,047	37,402	40,186	912	687	24,406	21,662
Married No Children	8,771	10,944	32,755	37,454	1,592	1,302	26,170	25,092
Single Parent With Children	688	681	21,493	20,462	421	404	12,013	9,961
Other Households	1,426	2,090	23,231	23,369	715	1,057	15,565	14,333
TOTAL	18,590	20,404	30,965	33,168	5,731	5,673	18,216	15,814
Household Head 65 or Older								
Single	3,312	5,230	7,434	8,997	2,572	3,281	6,300	6,409
Married	5,070	7,421	15,603	18,982	1,124	984	12,379	13,766
Other Households	1,211	1,621	15,184	15,807	464	462	11,160	10,457
TOTAL	9,593	14,272	12,730	14,962	4,160	4,727	8,485	8,

NOTE: Income data as of prior year

SOURCE: Joint Center tabulations of U.S. Department of Housing and Urban Development, Annual Housing Survey, 1974, and U.S. Department of Commerce, Current Population Survey, March 1987.

\ppendix Table 8

Households By Age And Type: 1980 to 2000

Age and Household Type	1980	1985	1990	1995	2000
Household Head Under 25					
Single	1,644	1,351	1,271	1,255	1,287
Married With Children	1,446	1,219	985	748	869
Married No Children	1,370	929	623	506	554
Single Parent With Children	727	732	698	663	693
Other Households	1,235	1,067	923	789	761
TOTAL	6,422	5,298	4,420	3,961	4,164
Household Head 25 to 34					
Single	3,364	4,172	4,746	4,868	4,621
Married With Children	8,887	9,214	9,235	8,130	6,832
Married No Children	2,732	2,518	2,223	1,846	1,554
Single Parent With Children	2,193	2,582	2,788	2,748	2,481
Other Households	1,302	1,817	2,000	1,814	1,571
TOTAL	18,478	20,303	20,992	19,406	17,059
Household Head 35 to 44					
Single	1,531	2,361	3,376	4,101	4,580
Married With Children	8,590	10,135	11,343	12,406	12,523
Married No Children	1,352	1,665	2,042	2,203	2,339
Single Parent With Children	1,859	2,434	3,002	3,271	3,400
Other Households	645	1,057	1,438	1,603	1,676
TOTAL	13,977	17,652	21,201	23,584	24,518
Household Head 45 to 64					
Single	4,535	4,855	5,498	6,802	8,941
Married With Children	6,038	6,033	6,358	7,033	7,630
Married No Children	11,238	10,845	10,898	11,991	13,749
Single Parent With Children	1,216	1,353	1,557	1,861	2,164
Other Households	2,204	2,489	2,713	3,117	3,867
TOTAL	25,231	25,575	27,024	30,804	36,351
Household Head 65 or Older					
Single	7,087	8,279	9,776	11,124	12,102
Married	7,344	8,071	8,813	9,213	9,180
Other Households	1,780	2,119	2,338	2,506	2,632
TOTAL	16,211	18,469	20,927	22,843	23,914

SOURCE: John R. Pitkin and George S. Masnick, Households and Housing Consumption in the United States, 1985 to 2000, *The Joint Center for Housing Studies of Harvard University, 1986.*

Appendix Table 9

Homeownership Rate By Region And Age: 1973 to 1987

Region and Age	1973	1976	1980	1983	1987
Northeast	59.2%	59.8%	60.7%	61.4%	61.4%
<25	17.4%	15.7%	14.5%	16.5%	14.6%
25-29	36.2%	34.3%	35.9%	32.4%	34.1%
30-34	51.3%	59.3%	55.0%	53.6%	51.3%
35-39	62.2%	60.3%	65.8%	61.2%	62.0%
40-44	69.2%	65.4%	66.0%	68.2%	67.2%
45-54	72.2%	73.7%	72.7%	72.7%	72.1%
55-64	69.8%	71.8%	74.0%	74.6%	75.9%
65-74	60.1%	63.0%	67.4%	69.6%	71.2%
75+	58.2%	57.5%	56.0%	61.2%	61.3%
Midwest	69.1%	69.5%	70.3%	70.0%	67.1%
<25	25.3%	24.4%	24.6%	21.8%	16.2%
25-29	47.9%	48.6%	50.5%	43.5%	40.2%
30-34	66.5%	68.6%	68.1%	63.0%	58.6%
35-39	76.0%	77.5%	78.0%	74.0%	69.7%
40-44	79.2%	81.3%	80.7%	81.6%	73.3%
45-54	80.9%	81.1%	83.7%	82.6%	80.7%
55-64	79.6%	82.4%	83.1%	85.0%	84.2%
65-74	76.6%	77.6%	79.1%	81.6%	79.4%
75+	71.8%	70.0%	69.0%	74.7%	70.1%
South	66.5%	66.4%	68.3%	67.1%	66.9%
<25	29.9%	24.2%	25.0%	23.0%	21.0%
25-29	47.6%	46.8%	46.4%	41.7%	39.4%
30-34	62.1%	63.2%	63.4%	56.6%	55.2%
35-39	68.7%	69.2%	71.7%	66.0%	65.8%
40-44	71.5%	74.1%	76.3%	76.3%	73.3%
45-54	76.1%	78.1%	79.1%	78.2%	76.9%
55-64	77.9%	78.1%	81.7%	83.0%	82.7%
65-74	75.9%	76.1%	78.2%	80.2%	81.3%
75+	71.9%	72.2%	74.6%	77.4%	78.6%
West	60.6%	61.2%	60.5%	58.7%	57.9%
<25	15.3%	15.1%	16.2%	11.6%	9.6%
25-29	39.7%	39.0%	36.0%	31.4%	27.0%
30-34	59.5%	56.9%	54.9%	48.2%	45.4%
35-39	65.2%	67.5%	66.1%	60.5%	55.6%
40-44	71.1%	72.6%	71.2%	67.9%	66.4%
45-54	74.6%	75.4%	73.3%	73.2%	71.9%
55-64	74.4%	75.7%	76.7%	76.9%	79.0%
65-74	70.8%	71.4%	73.9%	73.7%	78.7%
75+	62.2%	65.6%	67.7%	70.2%	69.8%

SOURCE: Joint Center tabulations of U.S. Department of Housing and Urban Development, Annual Housing Survey, 1973, 1976, 1980, and U.S. Department of Commerce, Current Population Survey, 1983 and 1987.

Appendix Table 10

Homeownership Rate By Age And Family Type

Age and Family Type	1973	1974	1976	1980	1983	1987
Household Head Under 25						
Single	7.7%	7.1%	7.8%	11.5%	10.9%	11.3%
Married With Children	38.9%	38.5%	34.5%	38.8%	32.7%	29.1%
Married No Children	26.1%	27.8%	30.9%	33.6%	30.5%	27.5%
Single Parent With Children	13.7%	8.9%	8.2%	10.1%	7.9%	6.3%
Other Households	7.6%	10.0%	8.5%	9.9%	11.1%	9.3%
TOTAL	23.4%	22.8%	21.0%	21.3%	19.3%	16.1%
Household Head 25 to 34						
Single	18.0%	16.6%	16.0%	24.8%	24.1%	23.2%
Married With Children	66.8%	68.1%	69.8%	71.1%	64.7%	62.9%
Married No Children	45.5%	47.3%	49.2%	58.3%	53.5%	54.0%
Single Parent With Children	31.7%	27.8%	28.7%	31.8%	24.5%	22.6%
Other Households	18.0%	18.6%	25.3%	29.4%	29.1%	27.5%
TOTAL	51.4%	52.0%	52.2%	52.3%	47.0%	45.1%
Household Head 35 to 44						
Single	28.0%	27.9%	28.5%	36.8%	37.5%	35.3%
Married With Children	81.0%	82.3%	83.0%	85.4%	83.2%	81.2%
Married No Children	66.8%	68.5%	67.3%	75.2%	74.0%	73.9%
Single Parent With Children	48.2%	48.9%	48.0%	50.1%	49.6%	48.4%
Other Households	51.5%	49.3%	50.8%	53.9%	48.1%	48.5%
TOTAL	70.7%	71.7%	71.4%	72.3%	69.6%	66.9%
Household Head 45 to 64						
Single	50.7%	48.3%	48.5%	51.6%	54.2%	54.3%
Married With Children	85.7%	86.3%	87.0%	87.7%	86.9%	85.5%
Married No Children	83.7%	84.6%	86.1%	88.4%	89.1%	89.4%
Single Parent With Children	61.4%	62.0%	61.7%	64.5%	57.2%	55.3%
Other Households	66.8%	66.6%	66.9%	68.0%	68.1%	66.4%
TOTAL	75.9%	76.4%	77.3%	78.5%	78.8%	78.2%
Household Head 65 or Older						
Single	57.8%	56.3%	56.8%	59.2%	62.0%	61.4%
Married	61.5%	81.9%	83.1%	85.0%	87.3%	88.3%
Other Households	69.3%	72.3%	73.5%	73.6%	75.9%	77.9%
TOTAL	69.8%	69.7%	70.6%	72.3%	74.8%	75.1%

SOURCE: Joint Center tabulation of U.S. Department of Housing and Urban Development, Annual Housing Survey 1973, 1974, 1976, 1980, 1983, and 1987, and U.S. Department of Commerce Current Population Survey, 1983 and 1987.

Appendix Table 11

Rent Burden By Age And Family Type

	Median Income (1986 Dollars)		Gross Rent (1986 Dollars)		Gross Rent Burden	
Age and Family Type	1974	1987	1974	1987	1974	1987
Household Head Under 25						
Single	$11,732	$12,437	$287	$318	29.3%	30.7%
Married With Children	18,608	13,690	292	324	18.9%	28.4%
Married No Children	22,325	17,879	329	365	17.7%	24.5%
Single Parent With Children	7,248	4,581	279	309	46.2%	81.1%
Other Households	11,906	11,279	367	407	37.0%	43.3%
TOTAL	15,828	11,737	312	348	23.7%	35.6%
Household Head 25 to 34						
Single	20,623	17,817	331	367	19.2%	24.7%
Married With Children	24,160	20,899	344	382	17.1%	21.9%
Married No Children	32,059	29,028	382	424	14.3%	17.5%
Single Parent With Children	10,965	7,271	319	354	34.9%	58.4%
Other Households	20,908	19,098	395	438	22.7%	27.5%
TOTAL	22,340	18,199	347	385	18.7%	25.4%
Household Head 35 to 44						
Single	19,282	19,934	325	360	20.2%	21.7%
Married With Children	26,715	23,793	363	403	16.3%	20.3%
Married No Children	30,200	29,749	359	398	14.3%	16.1%
Single Parent With Children	12,665	12,988	319	354	30.2%	32.7%
Other Households	16,999	19,288	325	360	22.9%	22.4%
TOTAL	21,963	20,357	343	375	18.8%	22.1%
Household Head 45 to 64						
Single	11,635	10,341	257	285	26.6%	33.1%
Married With Children	24,406	21,662	348	386	17.1%	21.4%
Married No Children	26,170	25,092	350	388	16.0%	18.5%
Single Parent With Children	12,013	9,961	310	343	30.9%	41.4%
Other Households	15,565	14,333	294	326	22.7%	27.3%
TOTAL	18,216	15,732	306	333	20.1%	25.4%
Household Head 65 or Older						
Single	6,300	6,409	203	225	38.6%	42.1%
Married	12,379	13,766	302	325	29.4%	29.0%
Other Households	11,160	10,457	257	285	27.5%	32.8%
TOTAL	8,836	8,540	238	257	32.4%	36.0%

SOURCE: Joint Center tabulations based on U.S. Department of Housing and Urban Development, Annual Housing Survey, 1974, and U.S. Department of Commerce, Current Population Survey, March 1987.

Appendix Table 12

Households In Inadequate Housing By Age, Tenure And Household Type

	Owner				Renter			
	Number (In Thousands)		Percent (%)		Number (In Thousands)		Percent (%)	
Age and Family Type	1974	1987	1974	1987	1974	1987	1974	1987
Household Head Under 25								
Single	9	12	11.0	8.0	236	187	22.4	16.2
Married With Children	78	44	11.8	11.0	243	180	23.1	20.4
Married No Children	39	39	7.6	11.6	190	101	14.4	13.3
Single Parent With Children	8	7	17.7	13.1	134	154	27.2	24.9
Other Households	7	16	8.7	11.4	142	124	18.9	11.2
TOTAL	141	118	10.8	11.1	945	746	21.1	17.8
Household Head 25 to 34								
Single	18	60	6.1	7.0	255	350	16.9	13.6
Married With Children	444	419	7.8	7.2	521	474	19.5	15.3
Married No Children	69	75	6.4	5.0	154	148	12.9	11.3
Single Parent With Children	53	81	11.9	12.8	282	408	24.4	23.0
Other Households	10	47	8.5	9.5	91	166	18.0	13.6
TOTAL	594	682	8.0	7.8	1,303	1,546	19.1	16.4
Household Head 35 to 44								
Single	39	58	14.4	7.6	167	182	24.1	14.2
Married With Children	522	458	7.7	5.9	347	321	23.9	19.2
Married No Children	67	67	9.2	5.2	69	63	20.7	14.6
Single Parent With Children	86	116	12.4	10.3	210	253	29.0	20.9
Other Households	26	42	13.0	9.2	52	82	24.9	16.3
TOTAL	740	741	8.9	6.8	845	901	25.0	18.1
Household Head 45 to 64								
Single	319	257	16.3	11.0	608	448	29.1	21.6
Married With Children	579	307	10.1	6.8	226	143	24.8	20.1
Married No Children	782	608	8.9	5.7	318	239	19.9	15.9
Single Parent With Children	125	71	18.1	12.8	117	93	27.8	25.6
Other Households	233	225	16.3	11.6	180	191	25.1	18.9
TOTAL	2,038	1,468	11.8	8.1	1,449	1,114	25.8	20.1
Household Head 65 or Older								
Single	689	616	20.8	13.0	604	413	23.5	13.4
Married	682	595	13.8	8.6	221	154	19.9	14.2
Other Households	275	254	22.7	17.9	147	152	31.7	28.9
TOTAL	1,646	1,465	18.2	12.0	972	719	23.9	16.6

SOURCE: Joint Center tabulations of U.S. Department of Housing and Urban Development, Annual Housing Survey, 1974 and 1983.

HELLMAN & LAZARUS

A SURVEY OF ATTITUDES
TOWARD HUNGER AND HOMELESSNESS IN AMERICA
JANUARY 8 TO 19, 1988

Conducted for:
The National Campaign to End
Hunger and Homelessness in America
714 G Street, S.E.
Washington, D.C. 20003
(202) 547-0461

Summary of Principal Findings

Ending Hunger and Homelessness Is a Top Priority for America

- Helping the hungry and homeless ranks second only to reducing the federal deficit as the problem American voters want the next President to work on (deficit 38%, helping hungry and homeless 27%)
- Sixty-seven percent (67%) say there are more hungry and homeless people in the U.S. than there were 10 years ago.
- The priority accorded this issue cuts across all partisan, ideological, and regional lines.

The Issue Cuts to the Heart of Americans' Self-image

- By 83% to 13% voters agree that "it is embarrassing that there are so many homeless and hungry people in a country as wealthy as the United States."
- Seventy-eight percent (78%) believe "adequate food and housing is a fundamental right for every man, woman, and child." Only 15% disagree.
- By 57% to 36% voters say "the government should guarantee every citizen enough to eat and a place to sleep."

Voters Are Willing to Pay More to Help the Hungry and Homeless

- Three of four voters (75%) want federal spending on aid to the homeless increased. Only 5% want less spent.
- By nearly two to one (51% to 29%) voters would be willing to pay $100 a year more in taxes if the money was used to aid the homeless and hungry.
- The willingness to spend and pay for more federal assistance is evident in voters of both of the major parties and all ideological outlooks.

A Presidential Candidate Who Leads On This Issue Will Gain Advantage

- Such a candidate would be focusing on what the voters identify as the second most important priority for the next President.
- By 56% to 26% voters reject the argument that a Presidential candidate who made ending hunger and homelessness a central part of his platform would be a big spender.
- Nearly three in four voters (72%) say such a candidate would be showing "the kind of leadership and vision I would like."
- Eighty percent (80%) believe such a Presidential candidate would be compassionate.
- Sixty-three percent (63%) say he would be courageous.
- These positive assessments of a candidate who makes ending hunger and homelessness a central issue are expressed by voters of both major parties, all ideological groupings, and all regions of the country.

Americans Believe the Problem of Hunger and Homelessness Can Be Eliminated

- By 66% to 28% voters reject the argument that "the problem of hunger and homelessness is just too complicated to be solved."
- Sixty-eight percent (68%) of American voters believe "if our country made it an important issue, we could end poverty in the U.S." Twenty-five percent (25%) disagreed.
- Sixty-two percent (62%) believe that recipients of government food and housing aid at least "sometimes" end up leading productive lives.

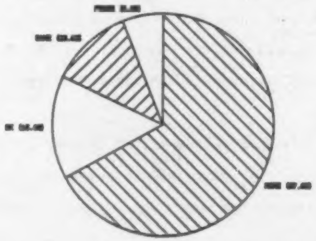
Introduction

Our survey demonstrates that ending hunger and homelessness is a top priority for Americans of both political parties and every ideological orientation. Moreover, the poll indicates that Americans are willing to do more than pay lip service to the problem. They want the federal government to spend more money and are willing to pay more in taxes to fund the solutions. The very existence of this problem runs counter to Americans' self-image. The electorate is embarrassed by hunger and homelessness in this country and feels it violates the fundamental rights of our citizenry. Therefore, voters say they are looking for a Presidential candidate who places these concerns at the center of his agenda.

Mounting Public Concern and the Demand for Action

Two-thirds (67%) of the public believe there are more hungry and homeless people in the U.S. today than there were ten years ago. This perception is evident in every subgroup of the electorate we examined.

ARE THERE MORE HUNGRY AND HOMELESS TODAY?



Indeed, the problem has become so pressing that voters see it as a priority for the next President. When asked to select the two most important problems for the next President to work on, helping the hungry and homeless generated the second largest number of responses (27%), behind reducing the deficit (38%).

Table 1: What Are the Two Most Important Problems You Want the Next President to Work On?*

Reducing the federal budget deficit	38%
Helping the hungry and homeless	27
Improving education	24
Protecting social security	23
Creating jobs	22
Finding a cure for AIDS, and other diseases	19
Controlling nuclear arms	16
Cleaning up the environment	11
Strengthening our national defense	10
Other, none	10

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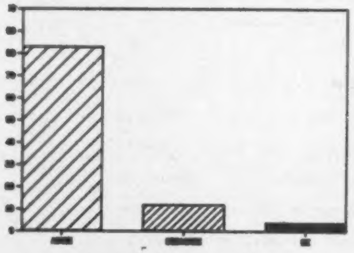
*Because the question includes respondents' first and second choices, response totals will add to 200%.

Helping the hungry and homeless is seen as particularly important by blacks (39%), lower socioeconomic status voters (37%), those 50 and older (34%), and women (35%). But it is also a priority for subgroups one might assume to be less interested. Helping the hungry and homeless ranks third (22%) as a priority for the next President among both Republicans and conservatives. For Southern voters, the issue ranks second on the list of priorities.

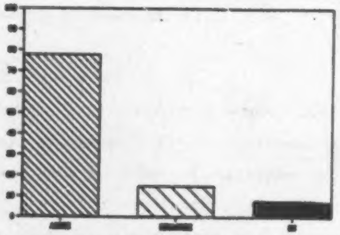
The existence of significant hunger and homelessness in this country cuts to the heart of America's self-image. Eighty-three percent (83%) agree with the statement, "It is embarrassing that there are so many homeless and hungry people in a country as wealthy as the U.S." More than 6 in 10 (61%) agree strongly with that view, while only 12% disagree at all. Some 78% of Americans believe, "adequate food and housing is a fundamental right for every man, women, and child."

NUMBER OF HOMELESS IS EMBARRASSING



It is embarrassing that there are so many homeless and hungry people in a country as wealthy as the U.S.

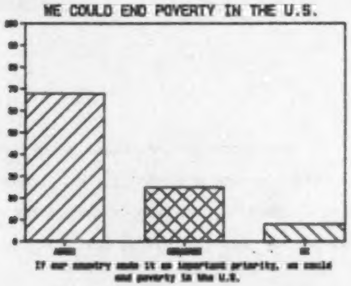
FOOD AND HOUSING IS A FUNDAMENTAL RIGHT



Adequate food and housing is a fundamental right for every man, woman, and child.

Although American voters are deeply dismayed by hunger and homelessness, they are not hopeless. The can-do spirit which animates much of American political thinking operates in this domain too. By 66% to 28%

voters reject the argument that "the problem of hunger and homelessness is just too complicated to be solved." More than two-thirds (68%) believe that "if our country made it an important priority we could end poverty in the U.S." Only a quarter (25%) of the electorate disagree with that proposition.



This increasing concern with hunger and homelessness occurs against the background of a worsening national economic climate. Nearly half (48%) of the voters believe the nation's economy has worsened during the last year; only 21% see an improvement. The deterioration is less evident as one moves closer to the individual level.

Table 2: Perceptions of the Economy Versus Family Finances

	National	Local	Family
Better	21%	26%	27%
Same	29	40	51
Worse	48	32	20
Better minus worse	-27	-6	+7

Individuals have yet to feel the worsening economic climate in their daily lives. They do, nonetheless, recognize that economic signs for the nation as a whole are ominous.

Voters are Willing to Pay to End Hunger and Homelessness

While voters say ending hunger and homelessness should be a priority, the question remains as to whether they are willing to expend dollars for solutions, particularly given the concern with the budget deficit. The answer is clearly yes. Respondents were asked whether the federal government should spend more, the same, or less on a variety of programs.

Table 3: Attitudes Toward on Spending for Federal Programs

	Great Deal More	Total More	Same	Total Less	Difference Between More & Less
Aid to the homeless and hungry	39%	75	16	5	+70
Education	33	66	23	6	+60
Health care for children	33	65	25	4	+61
Low cost housing	27	60	26	9	+51
Welfare	8	23	34	36	-13
Defense	14	28	35	32	-4

Particularly striking is the fact that while 3 in 4 voters want to spend more to aid the hungry and homeless, nearly 4 in 10 want to spend a "great deal more." The willingness to expend federal monies in this area is evident among every subgroup of the electorate.

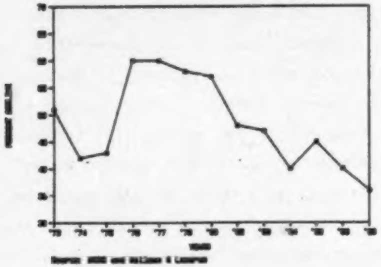
Table 4: Subgroups' Attitudes Toward Spending to Combat Hunger and Homelessness

	Great Deal More	Total More	Same	Less	Difference Between More & Less
Party					
Democrat	47%	82	12	3	+79
Independent	32	72	18	4	+68
Republican	32	66	22	7	+59
Ideology					
Liberal	45	82	12	5	+77
Moderate	43	76	17	2	+74
Conservative	34	69	19	6	+63
Sex					
Male	34	72	16	7	+65
Female	43	77	17	3	+74
Education					
< High School	39	74	18	2	+72
High School Grad.	43	79	13	4	+75
Some College	36	76	15	6	+70
College Grad.	35	71	20	5	+66
Age					
18-29	45	78	16	4	+74
30-39	37	77	15	4	+73
40-49	42	74	19	4	+70
50-59	42	72	19	5	+67
60+	32	71	16	4	+67

The desire to increase spending to alleviate the problem of hunger and homelessness is a matter of consensus across the American political spectrum. More than two-thirds of every subgroup we examined supports additional funds being spent to combat hunger and homelessness. An overwhelming majority of Democrats and Republicans, conservatives and liberals find themselves on the same side of this issue. Younger voters who have been widely characterized as the "Me Generation," unconcerned with the needs of others, show no evidence of self-absorption here. In fact, those younger voters are the age group most likely to favor substantially increased spending to alleviate the plight of the hungry and homeless.

Welfare, when called "welfare" has never been a particularly popular program. However, we note a continuing decline since 1976-1977 in the number of people who want to cut welfare spending:

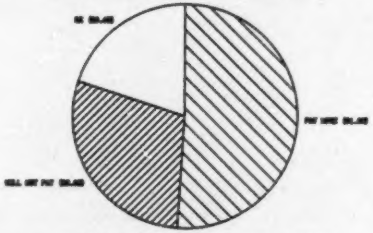
DECLINE IN PEOPLE WHO WANT WELFARE CUTS



Indeed, 1988 is the low tide mark for welfare cutters. The number of people who want to spend less on welfare has dropped 24 points since 1976-1977, following a rather steady downward trend.

We have learned in recent years, though, that there is often a good deal of difference between the public's willingness to spend and their willingness to pay. In this case, however, the electorate is willing to back up its largess with increased taxes. By nearly 2 to 1 (51% to 29%) voters say they would be willing to pay $100 per year more in taxes "if the money was used to aid the hungry and homeless in the U.S." Again, a plurality of Republicans and conservatives express a willingness to pay for these programs (46%-32% and 43%-35% respectively).

PEOPLE WILLING TO PAY $100 MORE TAXES



Would you be willing to pay $100 more a year in taxes if the money was used to aid the hungry and the homeless?

A Presidential Candidate Who Makes These Issues Central to His Campaign Will Gain Advantage

We have noted above that helping the hungry and the homeless is considered a top priority for the next President. Voters were also asked what kind of conclusions they would draw about a candidate who made ending hunger and homelessness a central part of his platform. By 56% to 32% voters reject the notion that such a candidate would be a big spender. Republicans reject it by an only slightly smaller 53% to 38% margin. Southern voters reject this claim by 56% to 20%. Overall, voters believe that such a candidate would show compassion (80%; 44% strongly agree). Seventy-nine percent (79%) of Republicans hold that view as do 84% of

Democrats. Voters also believe he would show "the kind of leadership and vision that I would like" (72%; 38% strongly agree). On this point too, the conclusion holds across all political and demographic groupings. More than two-thirds of each partisan and ideological segment say that a candidate who makes ending hunger and homelessness a central part of his platform would thereby demonstrate the kind of leadership and vision they are looking for. Some voters (40%) are willing to believe that a candidate who takes up the issue of hunger and homelessness "panders to special interest groups" (17% agree strongly); but 47% disagree. Nearly two-thirds (63%) of the voters say that a candidate who makes the issue of hunger and homelessness a central part of his platform would be "courageous."

The issue would solve some strategic problems for candidates of both parties. Republicans have traditionally had difficulty demonstrating compassion. As the data above indicate, campaigning for an end to hunger and homelessness would be a clear sign that a Republican candidate possessed this important quality. Similarly, Democrats have been at a relative disadvantage on leadership and vision. Making this issue a central part of the Democrat platform would communicate precisely those qualities to the electorate. Moreover, neither party would be susceptible to the "big spender" label and would be responding to a clear public priority.

The Role of Government

Voters see a central role for the federal government in dealing with the twin issues of hunger and homelessness. A two-to-one majority of the voters (51%-25%) believe "the government has a responsibility to see to it that people in this country are not homeless or hungry."

The public would also like to see state and local government along with private enterprise bear an increasing share of the burden. The sense that corporate America ought to do more for the homeless and hungry was a demand made particularly by voters in higher socioeconomic brackets. Professionals and those in management positions (50%) and voters with annual incomes in excess of $40,000 (53%) were the most likely to say private corporations were doing less than they should to combat hunger and homelessness. We asked voters whether a variety of institutions were doing more than they should, about the right amount, or less than they should to fight hunger and homelessness.

Table 5: The Public Desires Increased Action at Many Levels

	More Than They Should	Right Amount	Less Than They Should	Diff. Btwn. More and Less
Federal government	16%	22	49	-33
Private corporations	14	18	44	-30
State government	16	25	45	-29
Local government	15	29	42	-27
Religious institutions	22	42	25	-3
Charitable organizations	20	45	20	0

Thus, the argument that solutions to the problems of hunger and homelessness lie mainly in increased activity by charitable and religious organizations does not resonate with the public. Voters believe these groups are doing their fair share. The public wants greater involvement by government at all levels (including the federal) and by the for-profit sector.

What objection there is to government programs to aid the hungry and homeless stems from perceptions of mismanagement rather than an objection to the principle of government involvement:

Which of the following statements comes closest to your own view?

A. I don't object at all to government programs to aid the hungry and homeless............................37%

B. I object to government programs to aid the hungry and homeless because the government shouldn't be involved in these kinds of activities.......................5%

C. I object to government programs to aid the hungry and homeless only because those types of government programs are usually mismanaged............................45%

D. I haven't thought much about this..............12%

Among no subgroup does the number who object to government involvement in principle exceed 8%. Republicans, however, are much more likely to see mismanagement than are Democrats (54% vs. 39%). Conservatives and liberals show an almost identical pattern (52% of conservatives see mismanagement vs. 37% liberals).

Do the Hungry and Homeless Deserve Our Help?

The evidence cited thus far suggests that the electorate sees hunger and homelessness as a severe social problem and that voters are prepared to pay in order to correct it. But how deeply does that impulse run? One way to get some leverage on this question is to assess the degree to which the public feel these people deserve help. Here the electorate is somewhat discriminating. Half (50%) say "some poor people deserve our help while others do not." Another 42% say "all poor people deserve our help." A mere 1% believes that none of the poor are deserving. We asked voters whether or not various categories of people were deserving of assistance.

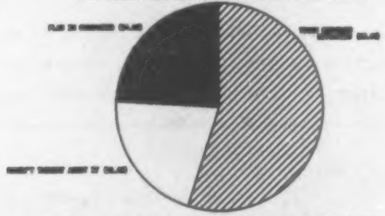
Table 6: Perception of Deservingness

	Very Deserving	Total Deserving	Not Deserving
The handicapped	76%	96	0
The elderly	73	93	1
The mentally ill	70	94	3
Children	70	92	2
Those who have jobs, but can still not afford adequate food or shelter	43	89	5
Mothers and children on public assistance	32	77	5
Pregnant women	29	65	13
Families	23	63	8
Those who cannot work due to alcoholism or drug addiction	9	43	42
Second and third generation welfare recipients	5	29	49

In determining whether a person merits assistance, voters seem to discriminate between those who are victims of circumstances largely beyond their control and those who have some responsibility for their own plight. The handicapped, the elderly, the mentally ill, and children can in no way be seen as responsible for their own situation. (We note, however, that elderly voters themselves are somewhat less likely to describe their peers as very deserving. Only 30% of respondents 60 years and over think the elderly are very deserving compared to 41% among all other age groups.) The working poor represent something of a middle ground. Addicts, alcoholics, and those who remain on welfare indefinitely are seen as bearing some significant share of the blame for their plight.

Most voters find most of the hungry and homeless falling into the deserving category. By more than 2 to 1 (55% to 24%) voters say that most of the hungry and homeless are that way because of a "tough economic situation beyond their control" rather than because "they are drug addicts, lazy, or suffer from some other flaw in their character." Similarly, when asked to pick the most significant cause of homelessness, 27% of the electorate cited inability to find jobs, high housing costs (18%), or mental illness (12%). A total of 35% cited either substance abuse (24%) or laziness (11%). Comparing these results to a similar question asked in January 1986 (CBS/NYT) indicates an increasing public understanding of the economic roots of homelessness. In the 1986 survey, only 19% cited "bad economic luck" while 20% said the homeless "just don't want to work". During the last two years the number citing laziness has declined significantly as the percentage identifying economic causes increased.

WHY ARE PEOPLE HUNGRY AND HOMELESS?



Would you say that most people who are hungry and homeless are that way because: They are drug addicts, lazy, or suffer some other flaw in their character or because of a tough economic situation beyond their control?

Despite the strong sense that the majority of the hungry and homeless deserve our help, a large majority of the electorate (79%) believe that too much of the aid winds up going to people who do not deserve it.

Finally, we should note that voters do not see public assistance as a dead end for these people. More than 6 in 10 voters (62%) believe that recipients of government food and housing aid at least "sometimes end up leading productive lives." Thus, while the public is certainly concerned about the problem of welfare dependency, they do not see it as inevitable by any means.

Specific Policy Options

We tested a variety of specific proposals and found support for concrete efforts to reduce hunger and homelessness. Nearly half of the voting public (47%) feel the current maximum food stamp benefit — 79 cents per person per meal — is too low. Only 27% say it is about right, with a mere 6% maintaining that it is too high. Respondents were also asked their reaction to federal cutbacks in the amount of surplus food to be given to the needy. Thirty-eight percent (38%) feel "the government should spend more on other food assistance programs to make up for the reduction." A lesser number (24%) say "the government should buy food to make up for the reduced surplus." Only 18% want no government action.

In the housing area, we examined reactions to three options. Support was greatest for a program to help low income people locate affordable housing that already exists (90% favor, 7% oppose, 57% favor strongly). "Providing tax incentives to private developers to build low rent housing for low income people" received support from 73% of the nation's voters (38% strong support), whereas 20% opposed the idea. Finally, 66% favored (27% strongly) "providing low income people with additional money to be used only for the rental of adequate housing." Twenty-five percent (25%) opposed this idea. There was almost no support (12%) for converting apartments now reserved for low income renters into housing for people with higher incomes. More than 8 in 10 voters (81%) opposed this proposal.

Voters do believe that the high cost of housing severely limits the ability of low income people to obtain proper shelter. Some 60% say it is at least "very difficult" for low income people to find adequate, affordable housing in this country. In response to another question, 60% said the difficulty low income people have in finding housing is due to rents that are "too high" rather than because "they haven't been looking hard enough" (5%), or because what they "regard as less than adequate is really all right for them" (11%).

The Determinants of Voters' Willingness to Help

Disentangling the sources of individuals' attitudes toward aid for the homeless and hungry is a difficult task. To help in this analytic process we have not only looked at marginal responses and cross-tabulations, but also developed, from the data, a statistical model of voters' thought processes. This model, employing a technique called regression analysis, tells us to what extent various opinions and perceptions affect voters' willingness to spend more money for the hungry and homeless while holding all other attitudes constant.

The easiest part of the process is eliminating explanations. A sense of personal economic vulnerability does not play a critical role in determining attitudes toward the hungry and homeless. Although 37% think it is at least somewhat likely that they might become homeless, other things being equal, these voters are not more likely than others to support increased assistance. Neither are the 20% who see a deterioration in their family's financial situation. While these numbers suggest that the threat of economic marginalization looms large for many Americans, particularly those already at the low end of the socioeconomic spectrum, interest in action for the hungry and homeless does not emerge from an instrumental viewpoint which recognizes the possibility of one's own future need.

Nor are voters' concerns about the quality of government management at the core of their attitudes toward assisting the hungry and homeless. Other things equal, voters who object to government programs because they are usually mismanaged are not more likely to oppose aid than are others.

The sources of attitudes toward aid to the hungry and homeless do seem to revolve around three related sets of issues: the causes of poverty, the question of how deserving of assistance the public believes the individual is, and one's philosophic commitment to individualist or communitarian values. Attributions of causality play a central role in structuring positions on this issue. To the extent that voters blame our economic or political system (institutions) for hunger and homelessness, the electorate is much more willing to help. To the extent that voters blame the poor for their own plight, they are much less anxious to take remedial actions. Our regression analysis confirms this notion, but for ease of presentation let us examine one cross tabulation to illustrate the point.

Table 7: Spending for Hungry and Homeless Depends on Individual's Responsibility

	Spend Great Deal More	Somewhat More	Total More	Same	Less	Difference Between Great Deal More & Less
Character flaw in individual	29%	33	62	21	11	+18
Tough economic situation	45	38	83	12	2	+43

Those who locate the causes of the problem in the victims themselves are 21 points less favorable to increased aid (62%) than those who blame the economic situation (83%).

Another kind of systemic explanation for hunger and homelessness finds fault with an economic and political system which subjugates the poor. Although this view is not widely held among Americans (36% agree that "the poor are poor because the wealthy and powerful keep them that way"), accepting this causal attribution exerts a substantial influence on voters' willingness to spend more to help the victims.

Table 8: Spending for Hungry and Homeless Depends on Society's Responsibility

Spending Should Be:	Great Deal More	Some More	Same	Less
Wealthy keep hungry and homeless that way:				
Agree Strongly	58%	30	8	3
Agree Somewhat	42	45	9	1
Disagree Somewhat	32	40	21	2
Disagree Strongly	33	30	22	11

A second and related determinant of voters' willingness to help the hungry and homeless is the extent to which the hungry and homeless are judged to be deserving of our help. This question is intimately linked to attributions of causality because the same criteria are employed to determine deservingness. Voters consider a person deserving to the extent that they are victims of circumstances beyond their control. The handicapped, the mentally ill, and children can in no way be seen as responsible for their own situation. Alcoholics and drug addicts, by contrast, are viewed as victims of their own misdeeds. The extent to which one sees the homeless and hungry as falling largely into one category or the other goes a long way toward explaining one's willingness to spend money to help them. Again, confirmation comes from our detailed statistical analysis, but the point can be easily illustrated by the following table:

Table 9: Spending Depends on Deservingness of Poor

How Many Deserve Help	Great Deal More	Some More	Same	Less
All	47%	36	11	2
Some	34	34	21	7
None	17	10	17	33

Finally, voters' philosophic orientations play a key role in determining willingness to help. The minority (25%), those who take a highly individualistic viewpoint ("people are responsible for their own well being and the government doesn't have an obligation to take care of them"), are less willing to spend more money on the hungry and homeless. The majority (51%), those who adhere to a communitarian ethic ("the government should help see to it that people in this country are not homeless and hungry"), hold a strikingly different view on spending to assist the people.

Table 10: Amount of Spending Depends on Philosophic Orientation

	Great Deal More	Some More	Same	Less
Gov't should help	47%	37	11	2
People responsible for themselves	30	30	23	11

Conclusion

Ending hunger and homelessness is a priority for Americans of all political persuasions. There is a near universal shame at the thought that such a problem exists in the U.S. Indeed, voters believe that adequate food and shelter is a fundamental right for American citizens. Voters want more action from government and from corporate America to alleviate the plight of the hungry and homeless. Despite widespread concern with the deficit, the public favors substantial new spending by the federal government to deal with the problem. Perhaps more important, a majority are willing to see their own taxes increased if the money is used to aid the hungry and homeless. While Americans of every partisan and ideological group favor more aid to the hungry and homeless, the extent of their willingness to support more spending is conditioned by three related factors: the degree to which the public sees society rather than the individual as responsible for the plight of the hungry and homeless, the degree to which those in need deserve our help, and the extent to which voters adhere to a communitarian rather than an individualistic ideal. Support for additional aid is so strong precisely because voters see the hungry and homeless as deserving, as victims of circumstance, and because the electorate believes in mutual responsibility. A Presidential candidate of either party who understands these concerns and responds to them will be rewarded by the electorate.

Appendix I. Technical Notes

The National Campaign to End Hunger and Homelessness commissioned Mellman and Lazarus, Inc. to conduct a national survey of registered voters.

The data for this analysis was collected by means of telephone interviews with a representative sample of registered voters in the United States. A total of 1000 interviews were conducted from January 8 to 19, 1988.

Interviews were taken from registered voters who were 18 years and older and living in the United States. Random digit dialing techniques were used to guarantee an unbiased sample and to ensure that all telephone numbers were potentially available for interviews.

For results based on this sample size, one can say with 95% confidence that the error due to sampling and other random effects could be plus or minus 3.1 percentage points. In other words, in 95 cases out of 100, the responses to this survey should be within 3.1 percentage points of those that would have been obtained had all registered voters in the country been interviewed.

Appendix II. Key Questions

1. Are there more hungry and homeless people in the U.S. today than there were 10 years ago, about the same, or fewer — or don't you have an opinion on this?

more homeless today.....67%
about the same..........12
fewer................... 6
dk......................15

2. What are the two most important problems you want the next President to work on?

	1st Most Important Problem	2nd Most Important Problem
finding a cure for AIDS and other diseases	9%	9%
improving education	14	11
creating jobs	11	11
reducing the federal deficit	24	14
helping the hungry and homeless	12	15
strengthening our national defense	4	6
controlling nuclear arms	6	10
cleaning up the environment	3	7
protecting social security	13	10
dk	3	7

3. After each of the following statements, please tell me if you agree or disagree with the statement I have just read. If you don't know how you feel about a particular statement, please say so and we will go on.

___ It is embarrassing that there are so many homeless and hungry people in a country as wealthy as the United States.

Agree: 83% Disagree: 13 DK: 4

___ Adequate food and housing is a fundamental right for every man, woman, and child.

Agree: 78% Disagree: 15 DK: 6

___ The problem of hunger and homelessness is just too complicated to be solved.

Agree: 28% Disagree: 66 DK: 5

___ The government should guarantee every citizen enough to eat and a place to sleep.

Agree: 57% Disagree: 36 DK: 7

___ The problem of hunger and homelessness is just too complicated to be solved.

Agree: 28% Disagree: 66 DK: 5

___ If our country made it a priority, we could end poverty in the U.S.

Agree: 68% Disagree: 25 DK: 8

___ The poor are poor because the wealthy and powerful keep them that way.

Agree: 36 Disagree: 59 DK: 5

4. Which of the following statements comes closest to your own view:

Some poor people deserve our help while others do not	50%
All poor people deserve our help	42
No poor people deserve our help	1
I'm not sure about this	7

5. Would you say that most people who are hungry or homeless are that way because:

They are drug addicts, lazy, or suffer some other flaw in their character	24%
Because of tough economic situation beyond their control	55
Haven't you thought much about this?	21

6. Over the past year would you say the nation's economy has gotten better, stayed the same, or gotten worse?

gotten better	21%
stayed the same	29
gotten worse	48
dk	3

7. And over the past year would you say the economy in your local area has gotten better, stayed about the same, or gotten worse?

gotten better	26%
stayed the same	40
gotten worse	33
dk	2

8. Would you say your family's financial situation has gotten better over the past year, stayed about the same, or gotten worse?

gotten better	27%
stayed the same	51
gotten worse	20
dk	1

9. The federal government spends money on lots of different programs. I'm going to list some of them. After each, please tell me whether you think the U.S. should spend more, the same, or less in each area. If you aren't sure, please say so and we will go on.

[IF MORE OR LESS ASK:] Is that a great deal (more/less) or somewhat (more/less)?

	great deal more	some-what more	same	some-what less	great deal less	dk
__ pre-school, elementary, and secondary education	33%	33	23	3	3	5
__ aid to the homeless and hungry	39%	36	16	3	2	5
__ improving health care for children in the U.S.	33%	32	25	2	2	6
__ welfare	8%	15	34	18	18	8
__ providing opportunities to obtain low-cost housing for those who need it	27%	33	26	6	3	5
__ defense	14%	14	35	17	15	5

10. Would you be willing to pay $100 more a year in taxes if the money was used to aid the hungry and the homeless in the U.S. — or aren't you sure?

would pay more		wouldn't pay		don't know	
would pay more	51%	wouldn't pay	29	don't know	20

11. I'm going to read you a list of institutions and would like you to tell me whether you think each one is doing more than it should, about the right amount, or less than it should to fight hunger and homelessness in the U.S. If you are not sure, just say so.

	more	right amount	less	dk
___ the federal government	16%	22	49	14
___ churches, synagogues, and other religious institutions	22%	42	25	11
___ private corporations	14%	18	44	24
___ charitable organizations	20%	45	20	15
___ state governments	16%	25	45	15
___ local governments	15%	29	42	14
___ individual people like you	20%	32	39	9

12. Which of the following statements comes closest to your own view:

I don't object at all to government programs to aid the hungry and the homeless	37%
OR	
I object to government programs to aid the hungry and homeless because the government shouldn't be involved in providing these kinds of activities	5
OR	
I object to government programs to aid the hungry and the homeless only because those types of government programs are usually mismanaged	46
I haven't thought much about this	12

13. Which of the following statements comes closer to your own view:

The government has a responsibility to help see to it that people in this country are not homeless or hungry,	51%
OR	
People are responsible for their own well-being and the government doesn't have an obligation to take care of them	25
OR	
I'm not sure about this	23

14. Now I'm going to list some kinds of people who are poor. Please tell me whether you think that kind of poor person deserves our help or not. If you are not sure please say so. Would you say _______ [INSERT FROM LIST BELOW] are deserving or undeserving?

[FOLLOWING ALL "DESERVING" ANSWERS WITH:] Is that very or somewhat deserving?

	very deserving	s.what deserving	undeserving	depends	don't know
mothers and children on public assistance	32	45	5	12	5
the elderly	73	20	1	3	1
the handicapped	76	20	0	2	0
children	70	22	2	3	2
second and third generation welfare recipients	5	24	49	12	9
those who have jobs but still cannot afford enough food or shelter for their families	43	46	5	4	1
the mentally ill	70	24	3	2	1
those who cannot work due to alcoholism or drug addiction	9	34	42	9	4
families	23	40	8	16	10
pregnant women	29	36	13	15	6

15. Would you say that most people who are hungry or homeless are that way because:

They are drug addicts, lazy, or suffer some other flaw in their character	24%
OR	
Because of a tough economic situation beyond their control	55
OR	
Haven't you thought much about this?	21

16. The federal government has announced that because government stockpiles of surplus food have greatly diminished, it is cutting in half the amount of surplus cheese and other surplus food items to be given to the needy. Which comes closest to your view:

The government should buy food to make up for the reduced surpluses, so that it continues to distribute the same amount of food to the needy,	24%
The government should spend more on other food assistance programs to make up for the reduction,	38
OR	
The federal government should not take any actions because this is a job for private charities,	18
OR	
I have no opinion on this	20

17. Here are a couple of ideas suggested by some people to deal with the housing issue. For each one please tell me if you favor or oppose the idea — if you don't have an opinion just say so.

	favor		oppose		
	strongly	s.what	strongly	s.what	dk
Providing tax incentives to private developers to build low-rent housing for low-income people	38	35	8	12	7
Helping low-income people locate low-income housing that already exists.	57	33	4	3	3
Providing low-income people with additional money to be used only for the rental of adequate housing.	27	39	13	12	10

18. How difficult do you think it is for low-income people to find adequate, affordable housing in this country — extremely difficult, very, somewhat, not too difficult, or not at all difficult — or aren't you sure?

extremely	30%
very	30
somewhat	24
not too	6
not at all	2
aren't sure/dk	8

19. It has been proposed that a substantial number of apartments that are now reserved for low income people at reduced rents be converted into housing for people with higher incomes. Do you favor or oppose such a measure?

favor 12% oppose 81 dk 7

20. Many low-income people say they have difficulty finding safe, affordable housing in this country. Which of the following reasons do you think is the main cause for this. . .

Rents are too high,	60%
These people haven't been looking hard enough,	5
OR	
What these people regard as less than adequate housing is really alright for them	11
OR	
None of these	15
dk	9

21. Do you agree or disagree with these statements about a presidential candidate who makes ending hunger and homelessness a central part of his platform.

[IF AGREE OR DISAGREE ASK:] Is that (agree/disagree) strongly or somewhat?

	agree		disagree		dk
	strongly	s.what	strongly	s.what	
__ He's a big spender	15	17	31	24	12
__ He's courageous	30	33	17	10	9
__ He panders to special interest groups	17	23	25	22	12
__ He shows compassion	44	36	8	6	6
__ He shows the kind of leadership and vision that I would like	38	34	9	9	11

22. Do think it is very likely, somewhat likely, somewhat unlikely, or very unlikely that you or a member of your family could end up homeless -- without your own place to live -- in the future?

very likely	12%
somewhat likely	25
somewhat unlikely	19
very unlikely	39
depends [VOLUNTEERED]	3
dk	1

NATIONAL HOUSING INSTITUTE

A STATUS REPORT ON:

the AMERICAN DREAM

APRIL 6, 1988

A Status Report on the American Dream:
How the American People View Housing
Problems and Programs Today

A Survey Conducted for
the National Housing Institute

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by R L Associates
Princeton, New Jersey

April, 1988

The American people support enactment of six specific new Federal programs to expand homeownership and housing opportunities for middle-class, working-class, and poor families. Moreover, the public is willing to pay additional taxes to fund these programs and would be more likely than not to vote for a presidential candidate who advocated significant new federal housing initiatives.

These are the key findings of a new national opinion survey conducted for the National Housing Institute by R-L Associates of Princeton, New Jersey. This telephone survey, conducted in February and March 1988 on a sample of 1,000 persons over the age of 18, is designed to be representative of the distribution of opinion in the American adult population. A technical appendix at the end of the report describes the methodology used.

Underlying the poll data is the reality that in the 1980s, in America, we have witnessed four broad housing trends, each of which has evidenced a downturn in living conditions for millions of American families. We have experienced a decline in the rate of homeownership, especially among young families; an explosive increase in homelessness; a severe shortage of rental units affordable to low- and moderate-income families; and a drastic cutback of federal activity to meet housing needs. These trends have taken place even as home prices have skyrocketed, downpayment requirements have increased, mortgage interest rates remain high, and production of affordable rental units has declined.

Our poll shows that millions of Americans are experiencing and fearing these problems. It shows, too, that the public wants something done, wants specific programs enacted, wants civic leaders who will advocate new housing programs and is willing to pay the tax bill these programs will require.

Goals of the Survey

The basic goal of this research is to develop a systematic understanding of how the American public views the spectrum of issues related to housing. We are, of course, interested in attitudes on the issue of homelessness. But, we are also concerned with the whole range of housing issues as they affect the ability of working and middle class people to find and afford the housing they seek.

To do so we looked at:

1) The extent to which the American public has personally experienced or anticipates trouble affording housing or purchasing their first home.
2) The degree to which they see various aspects of the general issue of housing as being of importance.
3) The willingness of Americans to pay to have a stronger housing policy. We investigated both the willingness to pay direct increases in taxes and the allocating of financial resources to housing programs relative to other competing government programs.
4) The political value or liability of a housing program endorsement.

THE KEY FINDINGS OF THE SURVEY

I. The American public views the difficulty of homeownership, affordable rental apartments, and homelessness as important problems for the nation.

II. Americans support a comprehensive series of programs that are designed to meet the perceived housing needs of working and middle class Americans. Supported programs include: a downpayment loan for young families; a mortgage-rate reduction fund; emergency loans and grants to prevent homelessness; a program to finance needed dwelling unit modifications for the frail elderly; tax benefits for employer-assisted housing; and public financing to rehabilitate old and vacant buildings for low-income housing.

III. The support for housing programs is realistic in that Americans are willing to pay for housing programs through increased taxes. A clear majority of the American people say they are prepared to tax themselves to pay for specific new federal programs they support. The survey indicates substantial support for an additional $12-17 billion in taxes for new federal housing initiatives. By a ratio of 2:1, Americans said they would be willing to pay an additional $120 a year in taxes to support a package of programs assisting the homeless, the poor, and middles-class Americans. The group of people willing to pay for a comprehensive housing policy compliments well the group willing to pay for such other social needs as Long-Term Care.

IV. Endorsing a housing program, especially if it is part of a comprehensive program of new an/or improved social services targeted to meet the needs of working class Americans, will be a political asset. A substantial majority of the American people would be more likely to vote for political leaders advocating new housing programs. Conversely, such an endorsement, if presented correctly, appears to carry little political risk.

V. Support for a comprehensive housing policy is strong because there is high personal identification and considerable direct personal need among the general public. A near majority of Americans now experience, or fear that they or someone in their family will soon be confronted with, significant housing problems.

I. The American public views the difficulty of first time homeownership, finding affordable rental apartments, and homelessness as important problems for the nation.

The attitudes of the American people as measured by our survey reflect the difficulty that young families have when trying to buy their first homes.

QUESTION:
The number of American adults who somewhat or strongly agree...

"that it is impossible to buy a home without two wage earners"	130 million
"that it is harder today for young couples to buy a first home than it was twenty years ago"	150 million

American public opinion puts a premium on the social and family benefits of homeownership.

QUESTION:
The number of American adults who somewhat or strongly agree that...

"raising children in a house is better for children than in an apartment"	131 million
"when people own their own homes it makes them into better citizens than when they rent"	102 million

The American public recognizes that housing affordability is a problem for low- and moderate income people. Six out of ten Americans believe that there is not enough housing in their area for families earning less than $15,000 per year.

NUMBER OF AMERICANS WHO BELIEVE:

"that there is not enough housing for families with incomes under $15,000 per year in their areas"	104.5 million

The affordability of both rental housing for low income people and homeownership for moderate income people are viewed as problems which need to be addressed. Nine out of ten believe that the absence of rent subsidies is at least somewhat of a problem. A similar number also think that it is at least somewhat of a problem that young families cannot afford to buy their own homes even when they have sufficient incomes to afford the mortgage payments.

THE NUMBER OF AMERICAN ADULTS WHO BELIEVE IT IS A VERY IMPORTANT OR SOMEWHAT IMPORTANT PROBLEM THAT:

"People need help or a subsidy in order to be able to afford to rent an apartment for their family"	160 million
"working people need to get a lower mortgage rate in order to buy a house"	157 million
"young people just starting out need some kind of loan of other help with a downpayment even if they could afford the monthly mortgage"	158 million

The vast majority of Americans (86%) feel that homelessness is "a national disgrace," and should be a top national priority and an even higher percentage (93%) respond that homelessness is an important problem that should be eliminated.

QUESTION:
the number of American adults who somewhat or strongly agree that...

"that homelessness is an important problem and that eliminating it should be a national priority"	164 million
"that homelessness is a national disgrace"	153 million

II. There are high levels of support for each of a variety of programs. Taken together these programs form a comprehensive housing policy.

Respondents were asked if they would be willing to spend their tax money for a variety of specific programs. Programs which we investigated and the proportions favorable and unfavorable are:

	Favorable	Unfavorable
A program designed to help keep the elderly in their homes when expensive structural modifications are required.	84%	9
A program to rehabilitate old and vacant buildings.	80%	9
A homelessness prevention program designed to protect those who are close to eviction for financial reasons.	78%	12
A mortgage assistance program designed to keep mortgage payments affordable		
As an extension of FHA	78%	8
Without mentioning	68%	16
A downpayment assistance program to aid first-time home buyers	64%	20
An employer assistance to employees housing program	48%	19

Even for the program with the lowest level of support, there is a substantial political base of support, since almost half of all wage earners under 65 years of age said they would be "personally interested" in an Employer-Assisted housing program. We note also that presenting Mortgage Assistance programs as an extension of FHA activity produces a significant increase in support.

We conclude that there is support for a wide ranging set of housing programs aimed at the working and middle class.

III. Americans are willing to pay increased taxes in order to have a stronger housing policy in America.

Americans are willing to pay an additional $12-$17 billion in taxes for new housing programs. The poll indicates that over sixty percent (60%) of Americans are willing to pay $120 a year, or more, in additional taxes to finance a package of programs assisting the homeless, the poor and middle-class Americans. Fifty -one percent (51%) are wiling to pay $180 a year or more for those programs.

We employed a series of questions to monitor both the willingness and extent of support for housing programs with personal tax dollars.

Specifically we asked:

> Altogether estimates are that a package of housing programs like those we have been talking about might add about $15 a month to the taxes of the average American family. Would you be willing to have $15 more in taxes withheld each month for a package of housing programs?
>
> If the respondent answered "YES", we then asked them whether or not they would be willing to pay about $25 a month more in taxes for these same type of programs. If the respondent said "NO", we instead asked whether or not they would be willing to pay $10 a month more in taxes for these same type programs.

Projecting our data indicates that over 90 million adult Americans say they would be willing to pay an additional $15 a month in personal income tax to support a comprehensive package of housing programs. This number represents 55% of adults with an opinion. Of this group, over 34 million Americans are willing to spend $25 a month in higher taxes for such programs. An additional 11% of those with an opinion say they would be willing to pay $10 more per month. Thus approximately 2/3 of adult Americans with an opinion say they would pay over $100 more in taxes per year to get a comprehensive national housing program.

Statement	All	Owners	Renters	Under 35	35-65	65+	M/F
	%	%	%	%	%	%	
Yes - $10 a month or more ($120 per year)	66	56	68	74	58	43	63 / 59
Yes - $15 a month or more ($180 per year)	55	47	59	65	47	35	55 / 49

The group giving the strongest support for additional taxes for housing are Americans 35 and under, where seventy-four percent (74%) supported an additional $120 per year, sixty-five percent (65%) supporting $180 per year.

We conclude that Americans want a new housing policy. They want a comprehensive series of programs that are designed to meet the housing needs of working and middle class Americans as well as the poor and homeless. They are willing to support such housing through higher taxes.

PUBLIC SUPPORT FOR A COMPREHENSIVE HOUSING POLICY MESHES WELL WITH THE SUPPORT FOR OTHER SOCIAL NEEDS

Respondents were also asked to divide $100 of their tax money by earmarking various portions of that amount to six different areas. The propensity to earmark money toward housing programs was used as a measure of the relative strength of housing against competing uses of tax money including:

Long-term care
Skilled workforce training/re-training programs
Environmental concerns
Defense spending
Deficit reduction spending.

Relative to other issue areas, housing programs rank behind Long Term Health Care for the elderly and closely behind education/retraining of America's workforce, and well ahead of the remaining three possible uses of the money.

Perhaps more important is the complementary nature of the sub-groups who emphasize a commitment either to Long Term Care or to a package of Housing programs. Long Term Care draws its greatest support from older Americans, or those with elderly parents, while Housing programs draw their greatest support from people in their 20's or early 30's or those who have children of that age. The result is that while neither program is the favorite of a majority of Americans, added together the two programs are the favorite of more than 60% of all American adults.

A political platform which combined programs for Long Term Care and Housing would appeal to a wide cross-section of Middle America.

IV. Housing is a strong political positive for candidates

Overwhelming numbers of Americans believe that housing is a very positive political issue for Presidential candidates.

Questions:

Of a Presidential candidate who advocates a comprehensive housing policy:

74% of the general public believe that
"A presidential candidate who advocates housing programs for middle and working class families understands the real needs in America."

65% of the general public denies that
"He's a Big Spender."

50% of Americans say they would be more likely to vote for a candidate who supported "a package of housing programs" while only 6% would be less likely to vote for such a candidate.

By a margin of 6:1 Americans considered that the "candidate for President who made a package of housing programs for the middle and working class a major part of his campaign" would be the candidate who understands the real needs in America. Fifty percent of our respondents, or almost 90 million adults would be more likely to vote for him, whereas only 6% would be less likely to do so.

At the same time, a major negative for many recent candidates - "He's a big spender" - is not applied to candidates advocating a strong housing program. Seventy-two percent of those with a definite view believed that a Presidential candidate would not be a big spender on the housing issue.

Few single issues move electorates to vote for or against a specific candidate. This survey demonstrates that housing is potentially such an issue. A nine-to-one margin (51% to 6%) said a strong housing program would be more likely to make them vote for a specific candidate. Forty-one percent (41%) felt it would not make any difference.

The poll shows that housing is an issue that interests people under 35. In fact, they are more interested than any other age group and more willing to pay additional taxes for a national housing program (74% support additional taxes of $120 per year, 65% support $180 per year).

Young voters generally have not related to many political issues in the past few years, as reflected in declining rates of participation in the political process. The issue of affordable housing has the potential to reverse and substantially increase young people's interest in the political process.

Taken together the results of this poll demonstrate that there is much for a politician to gain and little to lose in recognizing the desire of Americans for a comprehensive program to deal with the housing needs of Americans.

V. Support for a Comprehensive Housing Policy is strong because Personal Identification and Personal Need is high among the General Public.

The poll shows that Americans are experiencing personal housing problems and that they are fearful of their ability and their children's ability to be able to afford housing, particularly homeownership in the future.

Various questions were asked to determine how much personal exposure to housing problems the public has had.

Some of the questions employed to reach this determination are:

Have you ever had a bank or government agency refuse to give you the mortgage you desired when you initially applied for one?

Do you expect to be able to buy a home in the next four years? (asked of those renters who previously indicated a desire to own)

Do you expect your relation to be able to buy a home in the next four years? (asked of those homeowners who previously indicated they had a relation who wished to buy a home)

There are over 87 million American people who have or foresee a housing problem for themselves or who have or foresee a housing problem for their children or parents. These people fall into three general categories:

- Both renters and owners who currently have some difficulty making rent or mortgage payments.
- Individuals who have had or expect to have problems with dwelling unit modifications for the elderly.
- People who would like to buy a house but feel financially unable to.

In turn the last category includes:

- Renters who would like to but do not expect to be able to, buy a home.
- Renters who once owned but now rent due to financial reasons.
- Owners who do not expect a close relative (usually a child) to be able to buy a home which they believe that the relative wishes to buy.

One reason for the existence of such widespread feeling of inability to buy is the sharp drop in people who are eligible, or believe that they are eligible, for VA mortgages. Our data show that about twice the proportion of current homeowners used VA mortgages in the past as expect to use them in the future.

We conclude that any new down payment program for housing could be promoted in substantial part as a substitute for the decreased use of VA mortgages rather than as a totally new program.

Methodology

Telephone interviews were conducted during the month of February 1988 with a national projectable sample of 1001 adults. Interviews lasted an average of approximately 20 minutes in length. Interviews were conducted primarily during evening hours or on weekends. All interviews were conducted from a central interviewing facility under professional supervision. Experienced interviewers were used and all interviewers were given briefings on the specifics of this questionnaire.

A split sampling technique was employed such that four different matched samples of 252, 252, 242 and 255 respondents were interviewed using four variations of the questionnaire. While in general the same information areas were covered in each of the four questionnaires, the questions were systematically varied to some degree.

This was done for two reasons:

- To expand the material that could be covered.
- To allow for testing the effect of systematic variations in the form of a question.

As one example of such systematic variation, respondents were asked to indicate whether or not they would support a housing program designed to help first-time buyers afford their mortgage. Two of the four sample groups were asked their level of support on this program based strictly on the merits of the general program description. The other two sample groups had the program described as "a kind of extension of FHA which has helped many Americans to buy houses for the last 50 years." The difference in the levels of general public support depending upon whether or not FHA is used in presenting the program can thus be inferred from the research data.

Weighting

All data from each of the four groups of respondents were weighted to reflect known demographics in the United States. Respondents were weighted to known proportions by sex, age, education and region of residence. These weighted ratios were then projected to the known population of adults in the United States of 178.1 million.

A COMPREHENSIVE HOUSING PROGRAM SUPPORTED BY THE AMERICAN PEOPLE

I. American Dream: Making First Time Homebuying More Affordable
II. Housing for the Homeless: A Top Priority
III. The Needs of Older Americans: Housing Modifications for the Frail Elderly
IV. Crisis for Low Income Americans: Meeting the Affordability and Availability Gap
V. Support for Policy Innovation: Employer-Assisted Housing

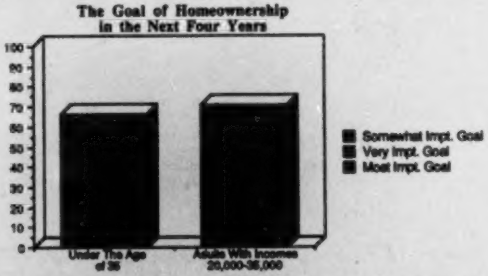
I. American Dream: Making First Time Homebuying More Affordable

Two-thirds of all American families own their own home. For most of the remaining third of the population, homeownership remains an important and desired goal.

The National Housing Institute surveyed Americans who are hoping to purchase a home during the next four years. Two-thirds of all adult Americans under the age of 35 who do not own a home say buying a home is an important goal. Seventeen (17%) percent of this group regard purchasing a home as their most important personal goal, and an additional twenty-six (26%) percent regard owning a home as a very important goal.

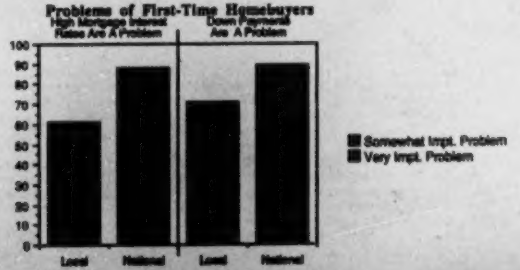
Seventy (70%) percent of all Americans with annual incomes between $20-$35,000 regard homeownership as an important goal, forty-eight (48%) percent of this group regard a home purchase as their most important goal or a least a very important goal.

Chart I



Sixty-one (61%) percent said high mortgage interest rates posed a somewhat or very important problem in buying a home in their area. One-third of this number said mortgage interest rates were a very important problem in their area. A similar number of Americans understood that high downpayment requirements were a major problem for home buyers in their area. Nearly 90% of the people surveyed, said that high mortgage interest rates and large downpayment requirements were important problems faced by homebuyers.

Chart II

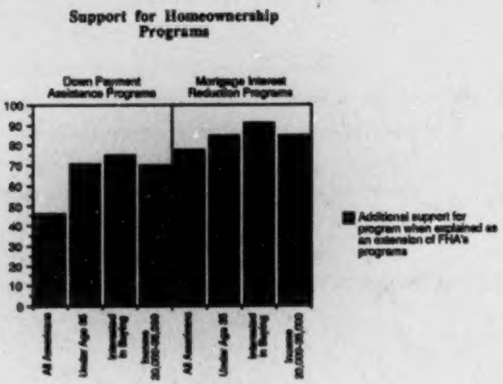


A series of questions were then asked regarding some proposed government programs that could help families transcend the expensive mortgage interest rate and downpayment barriers to homeownership. One set of questions described a second loan program to help families with dowpayments and a second set of questions described a program to reduce interest rates for first time home buyers.

Support for mortgage interest rate reduction programs was broad and extensive. Depending upon how a particular question was asked, support for mortgage interest rate reduction programs ranged from two-thirds to more than three-quarters of the American public. Support among the renting population ranged from seventy-five (75%) percent to eighty-one (81%) percent. Of those who are payi ıg 30%-50% of their income for rent, ninety-one (91%) percent supported the mortgage interest rate reduction program. About eighty-five (85%) percent of persons responding (about 15 million people) to this series of questions, who are hoping to buy a home within the next four years, supported this program.

Downpayment assistance, described as a second loan program for first-time homebuyers is also a very popular concept with the American people. Sixty-four (64%) percent of the American people support the creation of such a program. Support among those groups most interested in buying a home is even higher. Seventy (70%) percent of those with incomes between $20-$35,000 and seventy-one (71%) percent of adults under the age of 35 support such a program, and seventy-five (75%) percent of those who hope to purchase a home within the next four years also support a government downpayment assistance program for first-time homebuyers.

Chart III



II. Housing for the Homeless: A Top Priority

More than 9-out-of-10 Americans are aware that homelessness is a national problem. But, more importantly, homelessness is viewed as a "national disgrace" by more than 8-out-of-10 persons surveyed. Those same Americans believe that elimination of homelessness should be one of the nation's "top priorities."

Sixty-three million Americans believe that it is at least fairly likely that homelessness can be sharply reduced in this country.

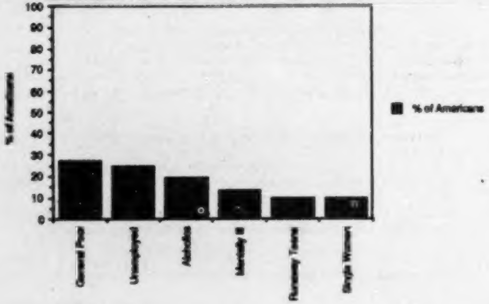
Not only does the American public overwhelmingly believe homelessness is a serious nation problem -- if not a national disgrace -- they are willing to fund programs to combat homelessness. Americans overwhelmingly support a national homelessness prevention program, 78% of Americans said they would support this program. A national homeless prevention program would provide short-term (up to 3 months) rent or mortgage payments to families facing eviction or foreclosure, but who are likely to need only this short-term assistance in order to permanently avoid the shelter and welfare systems. Ninety-two percent of all survey respondents who thought that homelessness was an important problem are willing to pay an additional $15-25 per month in taxes to combat homelessness and support other housing programs.

What Americans Think: Who are the Homeless?

In large measure the concern for the homeless arises from a relatively non-pejorative view of who is homeless. Americans recognize that the homeless are a cross section of America's poverty population. When asked which kinds of persons they thought were most likely to be homeless 27 percent responded that the homeless included the elderly, the general poor, or the untrained and undereducated. A quarter of all Americans (25 percent), based on the survey, recognized the homeless as families where the wage earner became unemployed. About one-fifth responded that the homeless are alcoholics and drug abusers; 13 percent say that homeless are mentally ill. Almost 10 percent think the homeless are teens, while another 10 percent think they are women, with or without children.

Chart A

Americans Views On Who Are The Homeless



Who sees the Homeless

Homeless people are becoming more visible in our society. Nearly 70 percent of those polled reported having witnessed homelessness.

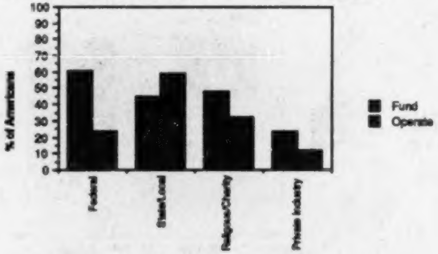
- 19 percent of those polled reported seeing homeless people everyday.
- 21 percent reported seeing the homeless occasionally.
- 28 percent said they rarely see the homeless.

Who should operate and who should pay for homeless programs?

Americans want to pay to help shelter the homeless and they want government to supply that shelter. Americans, as they do in many areas of social need, support the concept of Federal money with State Administration. 61 percent of the population believe that the federal government must take primary responsibility for raising funds for homeless shelters while an almost equal proportion (59%) believe that state and local governments should have primary responsibility for administrating the programs. Only 24 percent of Americans want the federal government to operate shelters. Americans want a robust federalism when it comes to sheltering the homeless, with the state and local governments taking the lead in operating the shelters. Eighteen percent of Americans polled thought charitable organizations should operate homeless shelters, while slightly smaller percentages of the public feel that religious institutions and private industry should operate these facilities.

Chart B

Who Should Operate and Pay For Homeless Programs



Support for a National Homeless Prevention Program

The National Housing Institute survey asked one programmatic question regarding the homeless. A program to provide loans or grants for up to three months to cover mortgage payments or rents of families facing foreclosure or eviction when the wage earner had recently become unemployed, was described to each respondent. When asked whether they would support such a federal program, 78 percent said they would. That this is the type of program that those in danger of becoming homeless would like to see is clear too. Eighty-five (85%) percent of those with severe rent problems and eighty-eight (88%) percent of those who own their own homes, but are having severe difficulty doing so, support a national homelessness prevention program.

Senator **Cranston**. Thank you very much.

I thank you for directing your testimony so much to the task force report. That is the most helpful thing you can do in your verbal presentation is to zero in on the task force report and what you think of it, and how it can be improved.

Our next witness is Roland Turpin, member of NAHRC Board of Governors and Director of the Richmond Redevelopment and Housing Authority.

STATEMENT OF ROLAND TURPIN, DIRECTOR, RICHMOND REDEVELOPMENT AND HOUSING AUTHORITY

Mr. **Turpin**. Senator Cranston, Senator D'Amato, thank you for the opportunity to present the views of the National Association of Housing and Redevelopment officials on the report of the National Task Force.

I am vice chairman of the housing committee of NAHRO, a 38-member group of housing authority directors from throughout the Nation. NAHRO itself is comprised of more than 2,800 local redevelopment and housing authorities and some 6,000 professional members.

I am executive director of the Richmond Redevelopment and Housing Authority in Richmond, VA. Our authority owns and managers 4,461 units of public housing, administers 1,874 units of section 8 assisted housing, as well as manage 50 units of section 8 privately rehabilitated housing.

RRHA has more than 1,000 acres in redevelopment and conservation programs, including over 55 acres in completed commercial and industrial uses. Through our redevelopment efforts we have produced, in addition to public housing, some 2,770 units of new and rehabilitated units. All programs in Richmond represent an investment of more than $295 million.

We were delighted, Senator Cranston, to see the National Task Force recommend a low income housing production program to regain the ground we have lost. We must begin to rebuild the supply of decent, affordable housing and we must begin now. A comprehensive national housing policy must include both supply and demand strategies.

We concur with the task force goal that Congress commit to provide sufficient assistance so that by the end of the century, less than 12 years from now, no household that seeks fit, livable, and affordable housing will lack the opportunity to do so.

REORDERING OF NATIONAL PRIORITIES

The real issue our country must face is a reordering of national priorities in order to make low income housing and other proven domestic programs work effectively. The National Housing Task Force, under your leadership, has performed a valuable public service by calling attention to the growing numbers of families unable to afford decent housing; the potential loss of assisted privately owned housing due to mortgage prepayments and expiring housing assistance commitments; and the modernization and operating subsidy needs of the public housing stock.

The task force has defined the problems of housing supply and affordability. However, they appear to have minimized the existing delivery systems. As a result, they have in effect recreated the wheel by proposing to involve new entities to produce, finance, lease, and manage low income housing. This implies time and cost which our budget-conscious Nation cannot afford.

We believe the expertise, authority, and track record currently exists to do the job. Local housing authorities such as the one I direct are community-based nonprofit developers, committed to low income residents on a long-term basis and dedicated to overall community revitalization.

Certainly PHA's are community-based, as their boards are comprised of citizens who are activist tenants, community leaders, and other local officials, all of whom are accountable to their community and to elected officials in our community. Certainly PHA's are nonprofit, as they are local government entities serving those at the bottom of the social and economic ladder, those least able to fend for themselves.

Certainly PHA's are committed to low income residents on a long-term basis as they have been in the business of housing in their communities for decades, and are not going to disappear due to lack of funds, interest, commitment, or volunteers.

These authorities, with their boards of citizens and elected public officials and their staffs, experienced in management, leasing, finance, development, and tenant relations, are an existing proven delivery system for a range of housing programs.

We don't require start-up time, legal authority, capacity building, technical assistance, or seed money. We exist now and are ready to resume volume production of low rent housing which we have been largely unable to do during this past decade.

Our sole purpose is to provide housing and related supportive service to low income Americans. We cannot afford, we feel, to divert time, attention, and scarce resources to capacity building of new entities. Under current law, PHA's can construct, rehabilitate, and lease low rent housing. They can manage housing, acquire sites through judicious use of eminent domain, issue tax exempt bonds, and enter into joint ventures. They can operate rental assistance programs with local, State, and Federal governments, manage or contract to operate special use housing such as aftercare and farm worker housing, and they can accept donations.

What we must come to grips with is the fact that the only permanently affordable housing for low income Americans is public housing. We believe the Housing Opportunity Program should be devoted totally to housing production in order to maximize the bang for the buck in tangible roofs over people's heads.

RECOMMENDATIONS

We offer the following recommendations which we feel would enhance the task force report:

1. Ensure that local public housing authorities participate in the new housing production program.

2. Commit to fund during the next 10 years, at an annual level of $2 billion the current backlog of major repairs and modernization needs of the present public housing stock.

3. Expand the public housing supply as the primary permanent low rent shelter resource.

4. Provide the opportunity for local housing authorities to acquire and manage privately owned, federally assisted housing in danger of losing its low income affordability.

Our experience serving the poor tells us that economic and often racial segregation perpetuates and compounds dependency, family and neighborhood instability, poor student achievement in school, and a host of other problems. We support an income and unit mix of buildings, projects, and neighborhoods that includes the working poor, those whose incomes are between 50 percent of median, as well as the needs of moderate income, those whose incomes are between 80 and 120 percent of the area median.

Such economic integration provides a setting in which peer pressure, role models, discipline, and self sufficiency work to make families secure and communities thrive. It is our view that the task force takes a minimalist approach to the existing public housing stock and existing authority and capacity of PHA's to add to that stock.

When the report does address public housing, it is in the context of preserving and maintaining the existing supply without recognizing the real potential and demonstrated track record of PHA's to resume volume production of low rent public housing development.

This is the business PHA's have been in for the past 50 years, Senator Cranston. NAHRO would like to see the task force laud the record of some of the 3,000 local public housing authorities throughout the Nation which have made substantial contributions to the affordable housing supply in their communities.

The booklet that I hope you have in front of you will show some recent examples of new public housing and conversion of existing buildings such as vacant schools to public housing use.

I certainly invite you and your staff to visit us in Richmond and, in fact, throughout Virginia to see what public housing authorities can do. Our Virginia congressional delegation is proud to know that we have some of the best managed and maintained public housing in the Nation.

We know we are not the new kid on the block. We prefer to think of ourselves as the mature partners of local and State government, committed to public purposes and to low income residents whom we serve, and accountable to the citizens who vote and pay taxes in our communities.

We suggest some precepts which we believe must underlie any rethinking of current assisted housing policy and delivery systems:

1. A move toward economic integration and income mix of low and moderate income Americans.

2. An emphasis of assistance on large single-parent families, the hard-to-house.

3. A commitment to building an existing capacity and expertise.

4. A fundamental recognition that primary housing providers who use public moneys, must be entrusted by, and accountable to, their communities.

5. An authorization of demonstrations of local solutions to local problems.

I am going to move on to my conclusion. We have to ask whether we can afford the opportunity at this crucial stage in the crisis to reinvent the wheel, or whether we should put solid support behind those units of government that have a perfect track record of production of low rent housing facilities.

Thank you.

[The complete prepared statement of Mr. Turpin follows:]

III. The Needs of Older Americans: Housing Modifications For The Frail Elderly.

The housing tenure patterns of America's elderly (those 65 years of age or older) reflect an earlier era of lower real mortgage interest rates and housing prices.

- Eighty (80%) percent of elderly Americans own their own homes, against a national average of only sixty-seven (67%) percent.
- Seventeen (17%) percent of all elderly rent as compared to the national figure of twenty-four (24%) percent of all American families.
- Elderly renters are more likely to rent in a rent controlled building than renters as a whole, by a margin of twenty-nine (29%) percent to eighteen (18%) percent.
- Fifty-two (52%) percent of all elderly have lived in the same dwelling for a least twenty years.

By 1990 there will be three times the number of elderly households as there were in 1950. By 1995 there will be six million more elderly households than there were in 1980. Three-fourths of this growth will occur among the frail elderly, those elderly age 75 and older. As a result of this sharp increase in the number of older Americans, the nation can be expected to need about 1.7 million new or substantially rehabilitated units for the elderly. Those surveyed strongly support funding a national program to rehabilitate units for frail older Americans.

The survey sought to explore the needs of the growing frail elderly population. Those surveyed were asked if they had ever had any experience with dwelling unit modifications for those with diminished capacities. Examples of such modifications cited in the question were grab bars, wheel chair ramps, elevators within a unit and the like.

Need for Housing Modifications for the Frail Elderly

About ten (10%) percent of all Americans or 17.8 million people, including the elderly, have experience with modified units.

The survey asked if people expected to need such modifications for themselves or a relative or family member.

- Seventeen (17%) percent of all Americans - 31.2 million people - expect to need home modifications sometime in the future.
- Fully 27% - 49 million Americans - have needed or expected to need a housing modification for either themselves or an elderly relative.

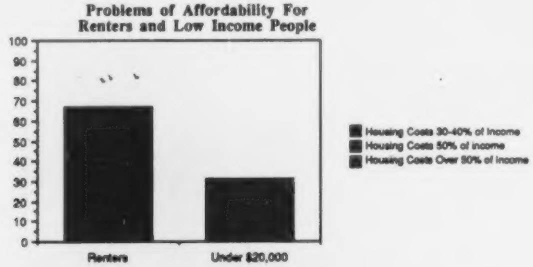
A final question was then asked in regards to whether those surveyed would be willing to see tax dollars going to support such a program to modify the homes of the elderly. Support for such a program was broadly supported across all ages, incomes and socio-economic classes.

- Eighty-four (84%) percent support such a program.

IV. Crisis for Low Income Americans: Meeting the Affordability and Availability Gap

Low income Americans--especially renters--face great difficulty in affording and finding permanent housing. According to our survey, 1 in 6 renters, almost 7 million people, have great difficulty or can't afford their housing -- based on paying 50% or more of their income for housing. Nearly half of American renters had difficulty affording their housing, paying over 30% of income for rent.

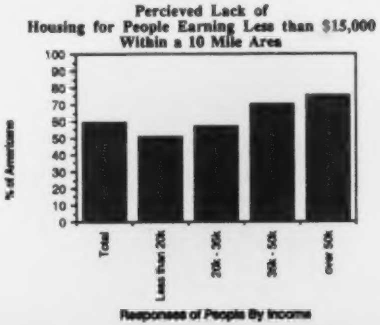
Chart 1



Problems of Affordability For Renters and Low Income People

Regarding the availability of affordable housing, almost 3 in 5 said that within a 10 mile area of where they lived, families earning under $15,000 would not be able to find low cost housing. Even among people earning less than $20,000, 51% responded that there is not enough housing for low-income people in their area. There appears to be little opportunity for low income people to find housing near people making over $50,000. Fully 75% of people making over $50,000 say there is not enough housing for low income people in their areas.

Chart 2

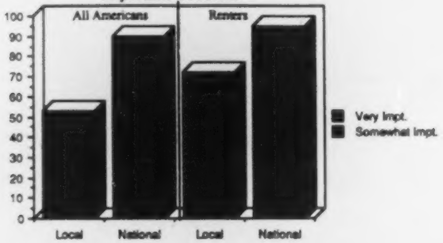


Percieved Lack of Housing for People Earning Less than $15,000 Within a 10 Mile Area

The American people understand that the need for rental assistance for low-and moderate income people is an important national problem. Fully 89% of Americans think that rental assistance is an important need in the nation. 54% believe it is a very important problem. A majority of the public clearly see the need for public assistance in their own communities. People who rent overwhelmingly see the need for assistance: 95% see such a need, 70% think it is a very important problem.

Chart 3

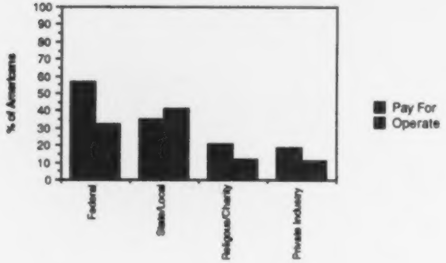
People Who Think The Need For Rental Assistance Is An Important Problem



Respondents overwhelmingly said that the public sector should operate and fund permanent low income housing. Americans want the federal government to be responsible for funding low income housing, and would have state and local governments be responsible for operating those programs. Significantly, almost 20% of those surveyed believe that private industry should have a major role in funding low income housing programs, but only 11% believed private industry should operate these programs. An additional 21% believe that the responsibility for funding housing for low income people rests with religious and charitable organizations.

Chart 4

Who Should Operate and Pay For Low Income Housing Programs



The American people support the rehabilitation of old and vacant buildings for low income working people.

- 80% of American people support such a program.
- 89% of renters with severe affordability problems support such a program.

V. Support for Policy Innovation:
Employer Assisted Housing

The National Housing Institute chose to survey public attitudes towards another program concept which the public is less familiar with. The concept is employer-assisted housing. A concept whereby employers can offer employees or groups of employees benefits, services, or access to corporate financial strength, at little or no cost to the employer, that enhance the employees' ability to purchase a home or obtain affordable rental housing. Methods include group mortgage origination, insurance or guarantees, downpayment loan and grant programs, mortgage interest reduction programs, employee housing trust funds, targeted housing partnerships, and corporate land or construction financing.

Some employers, already beset by the difficulties of attracting personnel to high housing cost areas, are offering some of these programs presently. Recently, the National Housing Taskforce (the Rouse-Maxwell Commission) endorsed the idea of having employers become more involved in helping employees obtain affordable housing. In response to the growing interest in public policy circles, the National Housing Institute asked Americans how they viewed the admittedly unfamiliar concept.

Sixty-four million Americans or nearly half of the working public are projected to be personally interested in an employee "housing personnel benefit" through which an employer subsidy would help people make down payments or meet their mortgage payments.

48% of working Americans support the federal government allowing employers to offer tax-free housing personnel benefits.

33% had mixed feeling or could not offer an opinion.

More significant was the strong support employer-assisted housing receives from those most likely to want and qualify for employer-assisted housing.

55% of all renters supported the idea, 94% of whom were personally interested.

Two-thirds of all renters who were paying 30-50% of their income for housing supported the idea of employer-assisted housing, 92% of whom were personally interested.

Of those hoping to buy a home during the next four years or who were under the age of 35, about 62% supported the program and in each case 100% of these respondents were personally interested.

It is clear from these responses that the American people support and would be interested in using a new type of employee benefit that would help reduce housing costs.

NAHRO National Association of Housing and Redevelopment Officials
1320 Eighteenth Street, Northwest, Washington, D.C. 20036-1803 (202) 429-2960

STATEMENT

of

ROLAND L. TURPIN

on behalf of the

NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS

before

a

HEARING

Senate Subcommittee on Housing and Urban Affairs

on

A NEW NATIONAL HOUSING POLICY

April 14, 1988

Thank you for the opportunity to present the views of the National Association of Housing and Redevelopment Officials on the report of the National Housing Task Force. I am the Vice Chairman of the Housing Committee of NAHRO, a 38 member group of housing authority directors throughout the country.

I am Roland L. Turpin, Executive Director of the Richmond Redevelopment and Housing Authority. Our authority owns and manages 4461 units of public housing, 1874 units of Section 8 assisted housing, as well as managing 50 units of Sec. 8 privately rehabilitated housing. The authority has 55 acres in redevelopment and conservation programs, including more than 34.5 acres in commercial and industrial activity and 2770 new and rehabilitated residental units, representing a $293 million total investment.

As you know, the National Association of Housing and Redevelopment Officials is a 55 year old professional membership organization of housing and community development officials throughout the United States who administer Housing and Urban Development programs at the local level. Our membership, numbering 8500, has long participated in the creation and fine-tuning of national housing policy and programs. We believe that our hands-on expertise will again be helpful to you.

We were delighted to see the National Housing Task Force recommend a low-rent housing production program to regain the ground we've lost.

The Task Force report proposes a rental assistance program, housing production program, and information policy. We are also pleased to see many of the proposals from NAHRO's long-range policy document Keeping the Commitment, embraced by the Task Force.

A major short-coming, in our view, however, is the "minimalist" approach taken to the conventional public housing program.

The proposed doubling of the number of housing units to 200,000 proposed for fiscal year 1989 is a step on the road to restoring housing to the national agenda. NAHRO stands ready to support the Task Force in proposing an increase in the authorization level for assisted housing and in making this proposal to the HUD Appropriations Subcommittee.

We would caution, however, that the President's proposed budget for assisted housing relies exclusively on vouchers with no new low rent units to be added to the supply. NAHRO disagrees with this exclusively "demand-side" approach which assumes that low income families need only supplements to their income to find decent, affordable housing in the private market-place.

Our experience in administering the Section 8 voucher program tells us that many local markets have low rental vacancy rates and those units that are available are at rent levels beyond the ability to pay for many voucher recipients.

We must begin to rebuild the supply of decent, affordable rental housing. And we must begin now. A comprehensive national housing policy must include

Senator **Cranston**. Thank you very much.

Our next witness is Michael Fried, president, Related Companies.

STATEMENT OF MICHAEL FRIED, PRESIDENT, RELATED COMPANIES

Mr. **Fried**. Thank you, Mr. Chairman.

I appreciate the opportunity to testify on the recommendations of the National Housing Task Force. In addition, I will limit my comments specifically to the tax recommendations of the report.

One other thing. I bring to the panel a slightly different view than my colleagues sitting here, since I am from the private sector, having been the president and chief executive officer of Related Capital Corp., one of the arms of the Related Companies.

For over 15 years, Related has been active in raising equity and in developing low and moderate income housing. Our track record perhaps is stellar within the industry. We have raised over $450 million to acquire in excess of 45,000 units of low and moderate income housing. In addition, through three public partnerships, we have raised another $400,000 which we have used in the last 18 months to finance nearly 10,000 units of housing nationwide through the tax exempt bond fund programs.

In addition, we are ourselves a developer of over 100 low and moderate income housing projects nationwide and that represents 12,000 units of housing.

Finally and most recently, we are proud of our role as the sponsor of Liberty Tax Credit Plus, an offering of equity interests in properties that benefit from the new low income housing tax credit. In this public offering, the largest of its type to date, we initially sought to raise $40 million for investment into properties benefiting from the new low income tax credit. In fact, we have raised $80 million to date from 9,000 investors, having bought 16,000 units of that partnership, so that to date we have been active both in the bond side in developing the housing, and most recently in the low income tax credit.

TAX INCENTIVES

Mr. Chairman, I believe that the task force is correct in stating that the construction of low and moderate income housing rental properties is directly connected to our Federal housing tax policies. In order to encourage private development of affordable housing, we not only need sufficient tax incentives, but also a consistent tax policy. Unfortunately, today's environment offers too few tax incentives and an inconsistent tax policy that gives incentives in 1 year and retroactively takes them back in another.

Looking at the many real estate markets, I can understand some of you feeling that we don't have a housing shortage. For example, in my city, New York City, the skyline is myriad with and dotted with cranes erecting new buildings. However, the appearance is deceiving. Because of the long lead time needed to develop these projects, many of them were started prior to the new legislation. Once these projects are completed, the pipeline of affordable housing is almost dry.

In short, 1989 may greet the next President with a major housing crisis for America's middle and low income. The Rouse-Maxwell report addresses this crisis. One of the most important contributions of the National Housing Task Force Report is its underlying message that appropriate tax incentives are necessary to encourage the private sector to develop and operate affordable rental housing.

The report suggests changes in the tax exempt financing laws and in the low income housing tax credit. I support the goal of these recommendations, but as a private developer I fear that these changes will not result nearly in the hoped-for production of affordable housing. This is primarily because the task force endorses the current law's unduly stringent income requirements for tax exempt bond financing and the low income housing tax credit.

However, the overall thrust of the report's recommendations are clear. It is not enough to offer a developer just the use of the tax exempt bond financing or the low income housing tax credit. To build affordable housing, the private sector needs tax exempt bond financing, low income housing tax credit, coupled with other favorable tax laws of appreciation and workable passive loss rules.

The need for these changes is clear. Nationwide in 1987, only a handful of properties were financed with tax exempt bonds, while in 1985, 300,000 units were financed, providing 60,000 units of low and moderate income housing from the bond financing program alone.

In fact, a panel formed by Senator D'Amato found that in New York State, not one unit of affordable housing has been built with tax exempt financing since the passage of tax reform. To offset the changes made by tax reform, Congress did create the low income housing tax credit, and that was laudable. But, unfortunately, the credit has proven to be virtually unworkable. The rules governing the credit place restrictions on the type of family that can live in the building being built, restrictions on the type of investor that can purchase the credit, and restrictions on the use of the credit, together with other Federal housing incentives.

Now, the task force makes many recommendations in which we concur. But the implementation of these tax recommendations are essential to building a Federal housing program. However, it is marred. It is marred because they each deal with the same definition of low income housing which is the stringent low income housing requirements which I believe make the prospective programs unworkable.

Tax reform has reduced the limits so that 20 percent of a project must be tenanted by tenants having 50 percent of the area median income. And the rent that can be charged is limited to 30 percent of their income. That reduces the average monthly rent to less than 2.5 percent of annual median income.

In nearly every part of the country, we and other developers have found that the savings to the project from the use of tax exempt financing are entirely eliminated by the cost of subsidizing the new tenants. Therefore, in the end, the projects are either conventionally financed or not undertaken altogether.

Although the income limits established by the tax reform are well-intended, they are counterproductive. The limits distort the economics of a project to such an extent that the project is not built. As a result, the important and needed tax changes recommended by the task force will not result in the hoped-for production of rental housing.

Mr. Chairman, the work of the task force is invaluable and their recommendations present a solid implementation of current law, but it is vital, in my opinion, that the issue of the income limit targeting be addressed in the tax exempt bond area and in the low income housing credit area.

Without these changes, the recommendations of the task force will not result in significantly greater production of affordable housing.

Thank you.

Senator CRANSTON. Thank you very much.

Your comments on the need for some changes in the tax law are, I think, very helpful. That is before another committee. We are going to have to figure out how to get that done, but we have to get that done.

Our next witness is F. Lynn Luallen, president, National Council of State Housing Agencies, executive director of Kentucky Housing Corp.

We welcome you.

STATEMENT OF F. LYNN LUALLEN, PRESIDENT, NATIONAL COUNCIL OF STATE HOUSING AGENCIES, EXECUTIVE DIRECTOR, KENTUCKY HOUSING CORP.

Mr. LUALLEN. Thank you, Mr. Chairman.

It is a pleasure for me to be here today. It is nice to see you again. I ask that our written remarks be included in the record.

Senator CRANSTON. They will be.

Mr. LUALLEN. Again I want to tell you how much I appreciate yourself and Senator D'Amato's work on the task force. The need is well-documented in the task force report, as well as the State of the Nation's Housing Report and as stated by prior witnesses here today. Both of these reports make clear linkage between rental housing problems and home ownership.

RENTAL HOUSING

In Kentucky, the indications are that our rental housing problems mirror the report's findings that renters' incomes are declining while rental costs are increasing. We are also experiencing a 3- to 5-year waiting period for section 8 housing, and this does not include those who were on the list, but gave up because of frustration.

Between the years 1976 and 1980, Kentucky Housing Corp. financed in excess of 12,000 rental units under the now-deceased section 8 housing program. The average income for a renter family of four under this program was $4,700.

Since 1981, we have been unable to finance needed rental housing for lower income Kentuckians because of the onerous sections of the 1980 Mortgage Bond Subsidy Tax Act as well as subsequent tax legislation, including the 1986 Tax Reform Act.

One of my goals here today is to convince you that State housing finance agencies are prepared to play a leading role as a delivery system for rental and home ownership housing. Over time State housing agencies have issued $48 billion in mortgage revenue bonds and $23 billion in multifamily development bonds, financing in excess of 950,000 mortgages, predominantly for first-time home buyers, and over 639,000 units of multifamily housing. We presently contract administer 5,015 federally subsidized projects totaling 381,000-plus units. This represents more than half of the federally assisted privately owned inventory.

Lastly, some 17 agencies manage 45,000 section 8 existing certificates and vouchers.

In many ways, Mr. Chairman, an increased State role is a natural evolution of the public sector's participation in national housing policy. Housing problems are as diverse geographically as they are financially. Individual States are in the best position to identify problems in their distinct market settings, to set priorities across the urban and rural home ownership and rental spectrums, to categorize need among various income groups, and to craft programs more responsive to the particular economic and political environment.

I have read and reread the National Housing Task Force Report, and over the last 6 days I have made 11 speeches in Kentucky on it to educate the general public, as well as the media, of the findings of the report and to use it as part of our State grassroots campaign for the extension of mortgage revenue bonds which will be before the Senate in S. 1522.

Last fall, we submitted to you our detailed position from NCSHA, asking for increased resources, improved existing program base, to integrate and coordinate housing programs, to have flexibility and allow leveraging of additional resources. Perhaps the report's greatest value is in creating the important first step in defining the parameters for the next generation of housing programs. And certainly we hope to be closely involved in the legislative process as it unfolds.

Above, I made it clear that State housing finance agencies have a capacity to deliver Federal resources to housing and that they have not only a responsibility, Mr. Chairman, but a desire to share a portion of the financial burden.

A call for program flexibility entailed in the recommended Housing Opportunity Program, or HOP, is especially appealing to those of us who face differing housing problems across regions and within States.

Let me stress the importance of coordinating State and local efforts using the HOP. This will ensure that resources are directed to the greatest problems and not simply dispersed on jurisdictional basis. This type vehicle can be a useful catalyst for improving and accelerating that cooperation.

With substantial experience in multifamily finance, we are keenly aware of the relationship between low and moderate income housing and tax incentives. The low income housing tax credit must be improved and extended, and such efforts must be accompanied by changes in tax exempt multifamily bond financing that restores the viability of this low income financing vehicle.

In conclusion, Mr. Chairman, as legislation is developed, we recommend a three-part approach encompassing home ownership, affordable rental housing, and special needs and homeless assistance.

We look forward to discussing home ownership in the future with you and your committee and we endorse your report. Thank you very much.

[The complete prepared statement of F. Lynn Luallen follows:]

both supply and demand strategies.

The proposed $3 billion Housing Opportunty Program is a modest, achievable level of spending for low rent housing production and acquisition. There has been a precipitous decline in the production level of new low rent assisted housing during this decade. In 1981, 117,000 net new units were added to the inventory. In 1986, that level had fallen to a dismal 22,000 units.

During this same time period, there has been a yearly loss of 200,000 low rent units from the private housing supply-- a total loss of 1.4 million units during the past 7 years--or approximately the same number as the current supply of publicly-assisted housing.

We concur with the Task Force goal that Congress commit to provide sufficient assistance so that by the end of the century--eleven years from now--no household that seeks fit, livable, affordable housing will lack the opportunity to do so.

In The State of the Nation's Housing released last month by the Harvard Joint Center for Housing Studies, the number of unassisted households currently unable to afford decent housing numbers 7.5 million. This goal, then, implies an annual commitment by the Congress to housing production and rent supplements of about 682,000 units/households per year.

The Congress has been consumed with deficit-reduction efforts during the 1980's. Those of us serving the poor were promised a 'federal safety net' of existing programs benefitting low and moderate income Americans.

Instead we have witnessed an unprecedented shift in spending priorities during peacetime. The Senate Budget Committee staff analysed the President's FY'89 budget and described the legacy left to future generations by this Administration.

They found during this decade a 100% increase in defense spending; a net decrease in tax revenue resulting from two tax reform laws; a shifting of the burden of tax payments away from individuals and corporations with the highest incomes; and a 75% decrease in assisted housing funding.

The real issue our country must face, Mr. Chairman, is a reordering of national priorities in order to make low income housing and other proven domestic programs work.

The National Housing Task Force has performed a public service by calling attention to the growing numbers of families unable to afford decent housing; the potential loss of assisted privately-owned housing due to mortgage prepayments and expiring housing assistance commitments, and the modernization and operating subsidy needs of the public housing stock.

The Task Force has defined the problems of housing supply and affordability. However, they appear to have overlooked existing delivery systems.

As a result, they have recreated entities to produce, finance, lease and manage low rent housing. This implies time and costs which our budget-conscious nation cannot afford.

We believe the expertise, authority, and track record currently exists to do the job. Local housing authorities, such as the one I direct, are community-based non-profit developers, committed to low income residents on a long-term basis, and dedicated to overall community revitalization.

Certainly PHAs are 'community-based', as their boards are composed of citizens activists, tenants, community leaders, and local elected officials, all of whom are accountable to their community and chief elected official.

Certainly PHAs are non-profit, as they are local government entities serving those at the bottom of the social and economic ladder--those least able to fend for themselves.

Certainly they are committed to low-income residents on a long-term basis, as they have been in the business of housing in their communities for decades and aren't going to disappear due to lack of funds, interest, commitment, or volunteers.

These authorities with their boards of citizen and elected public officials, and their staffs experienced in management, leasing, finance, development, and tenant relations, are an existing, proven, delivery system for a range of housing programs.

They don't require start-up time, legal authority, capacity building, technical assistance, or seed money. They exist now and are ready to resume volume production of low rent housing which they have been unable to do during this decade due to lack of federal funds.

Their sole purpose is to provide housing and related support services for low-income Americans.

We cannot afford to divert time, attention, and scarce public funds to capacity-building of new entities.

Under current law, PHAs can construct, rehabilitate, and lease low-rent housing. They can manage housing, acquire sites through eminent domain, issue tax-exempt bonds, and enter into joint ventures. They can operate rental assistance programs of local, state, and federal government, manage or contract to operate special-use housing such as after-care and farmworker housing, and they can accept donations.

What we must come to grips with is the fact that the only permanently affordable housing for low income Americans is public housing.

We offer the following recommendations to enhance the Task Force Report:

1. ensure that local public housing authorities participate in a new housing production program.

2. commit to fund during the next ten years at an annual level of $2 billion the current backlog of major repairs and modernization needs of the present public housing stock.

3. expand the public housing supply as the sole permanent low rent

shelter resource

4. provide the opportunity for local housing authorities to acquire and manage privately owned, federally-assisted housing in danger of losing its low income affordability.

The assisted private housing stock is a temporary haven of low income affordability for 20 years when the mortgage can be prepaid, or for 15 years when a Section 8 certificate expires. Those private building owners are not dedicated to the general welfare of Americans by providing low rent housing. They are in it for the tax breaks, accelerated depreciation, passive losses, and capital improvement write-offs.

Now that many of those tax benefits have been ended by the 1986 Tax Reform Act, they are ready to bail out, increase rents to market rates, and displace existing low income tenants.

While the Task Force defers to the separate recommendations of two other commissions on preservation of the assisted privately-owned stock, we believe local public housing authorities can be a primary resource to acquire and continue to manage the major part of this assisted housing supply of 1.5 million units.

Our experience serving the poor tells us that economic and often racial segregation perpetuates and compounds dependency, family and neighborhood instability, poor student achievement in school, and a host of other problems.

We support an income and unit mix in buildings, projects, and neighborhoods that includes the 'working poor'--those whose incomes are between 50 and 80 percent of the area median as well as "moderate" income - those whose incomes are between 80 and 120 percent of the area median income.

Such economic integration provides the setting in which peer pressure, role models, discipline, and self-sufficiency work to make families secure and communities thrive.

The Task Force proposal to provide full exemption from the passive loss rule and alternate minimum tax for low income tax credit projects makes sense and would encourage mixed-income projects while attracting and retaining investors in assisted rental housing.

Similarly, the proposal to enable public agency owners of low-income tax credit projects to sell the tax credits, rather than the project, will help guarantee the long-term use of the project for low and moderate income... a theme which seems to underlie many of the recommendations.

We also endorse tax law changes to allow tax credit carryovers from one year to the next to accommodate unforeseen construction delays. However, we believe an outside time limit should be spelled out for such a carryover period.

The proposed flexible rent standard that relates rent burden to family size and income deserves further study.

In addition, our proposals to this Subcommittee last October and subsequent working papers have linked rent supplements to housing quality standards. The purpose here is to ensure that rent supplements go to assist families in decent housing meeting minimum code standards.

It is our view that the Task Force takes a 'minimalist' approach to the existing public housing stock and to the existing authority and capacity of PHAs to add to that stock.

When the report does address public housing it is in the context of preserving and maintaining the existing supply, without recognizing the real potential and demonstrated track record of PHAs to resume volume production of low-rent public housing. This is the business PHAs have been in for the past 50 years, Mr. Chairman.

NAHRO would like to have seen the Task Force laud the track record of some of the 3000 local public housing authorities acrosss this nation which have made substantial contributions to the affordable housing supply in their communities.

My own authority in Richmond has added 1992 units to the low income supply between 1980 and 87, through such approaches as public housing, urban homesteading/housing recycling, tax exempt financing, and adaptive reuse of older buildings.

Prior to the federal abandonment of public housing production, authorities such as ours were adding to their local stock an average of close to 100 units per year. We were able to keep pace with the demand. In the last 7 years, we have added a total of 80 public housing units. Now our waiting lists locally and nationally are reaching staggering proportions.

The booklet you have before you shows some recent examples of new public housing and conversion of existing buildings such as vacant schools to public housing use.

I invite you and your staff to visit with us in Richmond and elsewhere in Virginia to see what PHAs can do. Our Virginia Congressional delegation are proud to note that we have some of the best managed and maintained public housing.

We know we're not the new kid on the block, Mr. Chairman. We prefer to think of ourselves as the mature partners with local and state government committed to public purposes and the low income residents whom we serve and accountable to the citizens who vote and pay taxes in our communities.

We suggest to you some precepts which we believe must underlie any rethinking of current assisted housing policy and delivery systems:

1. a move toward economic integration

   -an income mix of very low, and moderate income Americans must be served if we are to avoid mistakes of the past

2. an emphasis of assistance on large, single-parent families--the 'hard to house'.

3. a commitment to building on existing capacity and expertise.

4. a fundamental recognition that the primary housing providers using public monies must be public agencies entrusted by and accountable to their communities.

5. an authorization of demonstrations and incubators of local solutions to local problems.

Let me describe the NAHRO-proposed Housing Production Block Grant and the parallel between it and the proposed Housing Opportunity Grant.

The program is targeted to lower income households-those with annual incomes at or below 80 percent of the area median income. A minimum of 80 percent must be used for very low income housing - at or below 50 pecent of the median.

In keeping with the objective to foster economically integrated communities, Grant funds should be used in projects which serve households with a range of incomes within the eligibility limits. The economic mix of residents would be determined by program administrators in accordance with national and local objectives.

The Grant would house elderly households, families, and special needs groups -- including, for example, homeless persons and families, handicapped persons, single persons, and other groups identified in a local community's Housing Assistance Plan. Over a three year period, the use of Grant funds must correspond with housing needs identified in a community's Housing Assistance Plan (required in the Community Development Block Grant program). Funds must be targeted to elderly, family and special needs groups substantially proportionate to the level of need identified in the Housing Assistance Plan.

Funds may be used for 100 percent low-income developments, mixed income developments (with Housing Production Grant assistance going to low-income units), and scattered site developments. Developments may be rental, fee simple ownership, condominium, or cooperative. All housing types are eligible, including mobile homes, shelters and residential hotels, and single room occupany developments.

Over a three year period, nationally, not less than 70 percent of funds must be used to assist households residing in rental housing.

Rental housing would have to serve eligible low-income households for at least 30 years. Assisted homeownership housing must carry a deed restriction that any buyer must be an eligible low-income person (at the time of purchase) during the low-income use period. The low-income use period for homeownership housing would be 15 years.

In Grant-assisted rental housing, low-income households would pay a maximum of 30 percent of income for rent including utilities. In homeownership housing the maximum income-to-housing-cost ratio would be determined by participating mortgage lenders and mortgage insurers, recognizing that the ratio may be somewhat higher for homeownership than for rental housing.

Grant funds must be used in conjunction with and linked to specific properties. Funds may be used for site and unit acquisition, construction, rehabilitation, rent and interest rate subsidies, initial operating deficits, relocation, reasonable front end administrative expenses, and other uses which conform to and fulfill the objectives in the local Housing Action Strategy.

Funds are intended for activities which produce or preserve low-income housing or otherwise directly assist households in achieving an affordable housing cost in developments assisted with Production Grant dollars. Funding for activities such as general planning, technical assistance, and capacity-building are not eligible for funding.

There will be no federal operating, modernization, or improvement funding for housing assisted with Production Grant funds.

Properties assisted with Grant funds would be eligible for assistance from other federal government housing assistance programs -- including tax-exempt financing, real estate investment tax incentives, and the Low-income Housing Tax Credit. Households in assisted properties would be eligible for rent subsidies -- for example, through NAHRO's proposed Flexible Rental Assistance Program.

To be eligible for Housing Production Grant funding, local communities must prepare a three year "Housing Action Strategy" to supplement their CDBG Housing Assistance Plan (HAP). The HAP is intended to serve as an overall policy document -- to provide basic needs data, identify overall goals, and to designate priority locations for various housing-related activities. The Housing Action Strategy is intended to outline a more detailed process for implementing a program to meet housing needs.

PHAs and other governmental housing agencies operating within the community's jurisdiction -- including housing finance agencies -- must be afforded a significant role in the preparation of the Housing Action Strategy.

Funding would be allocated by a formula similar to that for Community Development Block Grants to entitlement communities of 50,000 or more population. Small cities would compete for funds in a manner similar to the small cities competition for CDBG funds.

Ten percent of the funds would be discretionary incentive awards by the HUD Secretary to reward creative matching or leveraging of other dollars.

This production program is a 3 year $10 billion program.

Fair Housing

We agree with the goal of expanding minority housing opportunities and that Congress should fully fund and make permanent the Fair Housing Initiative Program (FHIP) program. HUD has sought for a long time to create a fair housing enforcement program through private testing and other enforcement means. We support that Fair Housing Initative recently authorized in the Housing and Community Development Act of 1987 by this Subcommittee as well as S.558, The Fair Housing Amendments Act, which provides an administrative enforcement mechanism for individual complaints of housing discrimination.

Special Needs

We have two comments on the proposed targeting of funds to Special Needs Groups. First, we urge inclusion of hard-to-house large, single parent families (requiring 3 or more bedrooms) as a Special Needs Group.

Second, we believe localities should identify their most pressing housing need and identify strategies to meet those special needs. Funding should be based on those identified special needs.

Demonstrate Progress

We agree with the need for acountability by state and local governments - to HUD and to the citizens of their comunities.

In sum, Mr. Chairman, we believe the HOP closely parallels our proposed Housing Production Grant.

We believe the expertise, capacity, and production track record currently exists at the state and local level to add to the low rent housing supply in an expeditious manner.

We believe the Housing Opportunity Program should be devoted totally to housing production in order to maximize the bang for the buck in tangible roofs over peoples' heads.

The Existing Public Housing Supply

Our public housing experience during the years has shown that serving only the poorest of the poor in concentrated sites is bad social as well as economic policy.

We are sympathetic with the report's recommendations to deconcentrate public housing with particular emphasis on relocating families out of hi-rise buildings.

But that goal is an elusive one without a resource in which to re-house such families. The report makes it clear that further public housing production will continue within budgetary constraints. The public housing program should not be subject to budget constraints any more severe than other programs. Assisted low income housing has suffered more than a 75% decrease in budget authority since 1981. Assisted housing has done much more than its fair share for deficit reduction during this decade.

We have to ask where families in public housing hi-rises are to be relocated, absent additional public housing. We, too, support a one- for-one replacement policy for deconcentration of public housing projects. But, again, we cannot implement such a policy, to ensure that no low-rent public housing is lost from the national inventory, without an assured federal pipeline of new units to be employed in scattered site locations.

Housing Data and the Census of Housing

We are pleased to report that we are moving toward a resolution of this issue. The OMB has agreed to authorize the Census Bureau to restore essential housing questions and raise the sample size for the 1990 Census. Only one area remains unresolved -- the restoration of plumbing and heating equipment questions to the 100 percent enumeration; this is needed to assess rural housing. The follow-on surveys to the 1990 Census--the Survey of Residential Finance and the Survey of Inventory Change--are also critical.

It has been a long and difficult battle to achieve these changes, in which NAHRO has been in the forefront through its participation in the Housing Statistics Users Group.

In addition to the 1990 Census of Housing, it is essential to support the timely publication of the American Housing Survey, needed to provide data in the 10 years between the Census, and to target resources to the most serious needs.

New Sources of Capital

Benevolent lending at below-market interest rates for private non-profit providers of low rent housing is a worthwhile endeavor.

But we believe the existing depository institutions and federal insurance corporation could and should perform this function rather than creating new institutions. We suggest the Subcommittee explore the potential for such funding with the Federal Home Loan Bank Board and the Neighborhood Reinvestment Corporation.

Mr. Chairman, NAHRO would like to comment in more detail in the coming weeks on this report.

The Rouse/Maxwell task force approached their task with seriousness and diligence. They defined the problem of housing supply and affordability. What they appear to have overlooked is existing delivery systems -- from local public agencies, to the nation's thrift industry.

We hope, Senator Cranston, that you will explore the track record and existing authority to do the job of local housing authorities, community development and redevelopment agencies, state and local housing finance agencies, neighborhood housing services, the neighborhood reinvestment corporation, and savings and loan associations.

We submit, Mr. Chairman, that present authority, expertise, and track record already exists for much of what we all seek to accomplish. What is needed is a recommitment of federal resources to reestablish a working partnership.

The Task Force acknowledged this fundamental starting point on page 15 of its report, entitled "Renewing the Nation's Commitment," I quote you that section:

"The federal government must reaffirm its role as a leader in finding solutions to the country's housing problems. . . (It) must shape the national housing agenda -- draw attention to needs, set goals, establish standards for performance, and provide funding and stimulate additional investment from state and local governments and the private sector."

NAHRO will continue to work with this Subcommittee and the House Subcommittee to ensure that we keep that commitment.

Thank you for the opportunity to be here.

Senator **CRANSTON**. Thank you very much.

Our next witness is Charles Edson of Lane and Edson.

STATEMENT OF CHARLES EDSON, OF THE WASHINGTON LAW FIRM LANE AND EDSON, P.C.

Mr. **EDSON**. Thank you, Mr. Chairman, for the opportunity to appear here today. I apologize for my tardiness. I am chairing a seminar at this very moment on last year's housing bill, and I put on a particularly long-winded speaker. I am sure he will still be at it when I get back. But thank you for allowing me to be here in the interval.

My name is Charles Edson of the Washington, DC law firm of Lane and Edson, P.C. All of the views that I am stating today are my own. However, they reflect the policies of the Council for Rural Housing and Development and the National Leased Housing Association, two groups represented by our firm.

Indeed, we are pleased to see that the task force report incorporates many of the suggestions that each group made in its submission to the task force.

May 5 marks my 20th anniversary in the housing field. During that time, I have read endless numbers of studies, reports, compilations, and analysis. The report of your task force is really the very best. From its moving introduction, to its comprehensive statement of need, into its detailed recommendations, the report is elegant, forceful, and thoughtful and well presents today's housing needs and what to do about them.

You two Senators can really take great pride in launching this effort.

HOUSING OPPORTUNITY PROGRAM

I would first like to address the HOP program, which is really the cornerstone of your recommendations. It is an excellent suggestion. Speaker O'Neill once said that all politics is local. Indeed, all housing needs are the same. And the way to meet these needs is on the local level, through the block grant.

The CDBG proved to be an apt precedent in that regard, and it also established the local capabilities that will be needed in the housing field. It brings to the local level for decision such questions as whether we should be subsidizing new construction for low income people or utilize our existing stock. And the local communities will then have to make the tradeoff of the fewer numbers of newer units versus the larger number of existing that would be subsidized.

I do have some cautions about the HOP program. It should not be expected to do everything to meet all of our of housing needs. For example, HOP should not be expected to replace the expiring Federal subsidies. That is another problem that has to be met with other funding. I know your report emphasizes that HOP funds should only be used to subsidize private existing housing, but I could well see a fund-starved Congress trying to kidnap and utilize HOP funds to take care of the expiring Federal subsidy problem.

HOP is not a breeder reactor. It does not generate funds for every purpose. And I make this caution because people have tried to use CDBG to meet every conceivable development need.

Second, a community should not be unduly restricted in utilization of HOP funds, especially in the area of low income targeting. If targeting is too severe, these funds cannot be used for home ownership, which might be a relevant need, nor can it be used to increase housing supply generally. For example, it might be a good idea to have a program to move middle income people in large houses into elderly projects as they get along in years and free up that housing for large families, a very pressing need, but if we unduly target the income eligibility, you will thwart such creative programs.

I could spend the whole day on other recommendations because they are so comprehensive, but I just have a few minutes so I will limit my thoughts to issues that concern the groups that we represent. I think a major suggestion that you should be commended for is the continuation of the section 8 Rental Assistance Program, either through certificates or vouchers. Time does not allow analysis of the merit between certificates and vouchers, but they go on the same principle of the utilization of existing housing.

You can use them together with the HOP program, You can use HOP funds to rehabilitate good privately owned housing, and then give the potential tenants a certificate or voucher. Throughout your report is this very commendable imaginative interplay of programs.

Second, we commend the task force for support of the low income housing tax credit. We believe that it is a very good program. It is now getting off the ground to meet some of our basic housing needs. Your suggested changes to the programs are good ones, and we commend their adoption and passage.

Finally, we commend you on your endorsement of the section 515 program and not rolling rural rental housing into HOP. Section 515 is a cost-effective program. It reaches people at the $8,000 a year income level. It is a bargain for the Government. You are right in having it continue.

So, to conclude, I commend you, Mr. Chairman and Senator D'Amato for this marvelous effort and look forward to working with you, your staff, as we have for the past 20 years in shaping housing legislation for the next millennium.

Thank you very much.

[The complete prepared statement of Mr. Edson follows:]

Testimony of F. Lynn Luallen

Executive Director, Kentucky Housing Corporation

Before the

Subcommittee on Housing and Urban Affairs
Senate Committee on Banking, Housing and Urban Affairs

538 Dirksen Senate Office Building
Thursday, April 14th

Testimony of F. Lynn Luallen
Executive Director, Kentucky Housing Corporation
Before the Subcommittee on Housing and Urban Affairs
Senate Committee on Banking, Housing and Urban Affairs

Introduction

Mr Chairman, I appreciate the opportunity to appear before this committee today. Your devotion and persistence in passing the first housing bill in seven years, and the activities of the Cranston/D'Amato Commission, have elevated the awareness of the housing problem to its highest level in over a decade.

At the outset, I would like to reiterate the importance for overall housing policy efforts. The passage of S. 1522 extending the Mortgage Revenue Bond homeownership program would demonstrate this commitment. We appreciate your and Senator D'Amato's original co-sponsorship of this measure.

My name is Lynn Luallen, I am Executive Director of the Kentucky Housing Corporation. I am currently president of the National Council of State Housing Agencies which represents members in every state. I am pleased with the opportunity to discuss affordable rental housing. State housing finance agencies (HFAs) have a proud history of involvement in rental housing using both direct expenditures and tax-exempt bond programs for low- and moderate-income housing production. Unfortunately, we have witnessed our capacity to finance low- and moderate-income housing erode over recent years to the point that we are virtually without a means for meeting our pressing and growing housing needs in this area.

The evidence of these needs is abundant. Most recently, the Joint Center for Housing Studies of Harvard University released "The State of the Nation's Housing" a report which raises four salient concerns pertinent to rental housing:

- Inflation-adjusted gross rents now stand at their highest level in two decades;
- For the growing number of low- and moderate-income families, rents as a percent of income have increased sharply;
- The supply of low-cost rental housing continues to shrink as units are lost to abandonment or are upgraded for higher-income occupants. (These renters once were able to purchase their first home, but are now unable.); and
- Only one in four renter households with incomes at or below the poverty level lives in public or other subsidized housing.

As the State of the Nation's Housing Report insightfully indicated, the nation's problem runs the gamut from the difficulties of potential first-time homebuyer through the low- and moderate-income renter to the homeless. Each effected population is experiencing increased frustration with their housing situation. Moreover, the problems are interrelated. An important link exists between declining homeownership rates, especially among young households and affordability problems in rental market. Rents are raised by increased demand and low-cost units upgraded for the high end of the market in a period when low-cost rental production is declining.

Further, the low- and moderate-income housing development community that existed within the private sector nationwide has virtually disappeared. This problem is reflected by the absence of any significant low- and moderate-income multifamily rental activity in our agencies and by the Low-Income Housing Tax Credit's lackluster performance in its first year of existence. While we applaud and want expanded involvement of non-profit sponsors, the for-profit sector must participate in production if an affordable rental housing crisis is to be averted.

States are Prepared to Play a Role

Mr Chairman, prior to commenting on "A Decent Place to Live" ("The Report"), I want to assure you on behalf of my colleagues that we are fully committed to the expanded state role proposed in that document and believe we can achieve even more than envisioned.

State HFAs are experienced with housing finance and capital markets, understand local housing market conditions, and have moved well beyond the simple capital conduit role of the past to that of entrepreneur and innovator. State HFAs have long-standing relationships with housing developers, builders, lenders, real estate professionals, municipal governments, and local housing interests. We are an efficient, available delivery vehicle with a proven long-term commitment to the housing needs of our low- and moderate-income citizens.

State HFAs have issued $48 billion of Mortgage Revenue Bonds and $23 billion of Multifamily Development Bonds, financed over 950,000 mortgages predominantly for first-time homebuyers and over 639,000 units of multifamily housing. We contract administer 5,015 federally subsidized projects totaling 381,737 units. This represents more than half the federally assisted privately owned inventory. Lastly, 17 agencies manage 45,000 Section 8 Existing Certificates and Vouchers.

Essential experience in both single and multifamily housing exists in State HFAs at two levels: the finance level and public security level. We are experienced with mortgage underwriting, mortgage servicing and tax code compliance for single and multifamily housing. State HFAs are able to combine a host of federal, state and local subsidies, credit enhancements, and varieties of private financings into an economically feasible package. We understand intricate housing bond transactions, which are essentially mortgage backed securities and are perhaps the most complex of all public securities.

State HFAs have a proven ability to attract capital to market segments and regions where private sector activity is inadequate.

This increased state role is a natural evolution of the public sector's participation in national housing policy. Housing problems are as diverse geographically as they are financially. States are in the best position to identify problems in their distinct market settings, set priorities across the urban-rural, homeownership-rental spectrums, categorize need among various income groups, and craft programs more responsive to the particular economic and political environs. We have an in-depth appreciation of individual program participants' strengths and weaknesses, both substantively and politically. This understanding translates into a higher probability of programatic successes.

Comments on the National Housing Task Force Report

The Report is an impressive and thought provoking first step in defining the parameters for the next generation of housing programs. It is an accurate assessment of the problem; challenging in scope; and comprehensive in its recommendations.

NCSHA intends to analyze this report with the same energy and dedication applied by the members in developing it. As the legislative process unfolds, our positions on the details will be well known. We appreciate that the report reflected the fundamental principles set-forth in our initial submission to your task force.

- Increased public resources
- Improved foundation of existing programs
- Integrated and coordinated public resources
- Flexibility in program design
- Leverage of additional resources

Today, we applaud the overall effort and react in a general manner to the broad recommendations directly relating to rental housing.

I. A New System for Delivering Affordable Housing . . . the "Housing Opportunity Program" (HOP): As stated above, we agree that states and larger local governments have the capacity to deliver federal resources to housing and that they have a responsibility to share a portion of the financial burden. The call for program flexibility is especially appealing to those of us who face differing housing problems across regions and within states. It is especially important to coordinate state and local efforts using HOP. This will ensure that resources are directed to the greatest problems and not simply disbursed on a jurisdictional basis. Moreover, a vehicle such as HOP can be a catalyst for improving and accelerating that cooperation.

II. New Sources of Capital and a New Institution for Low-Income Housing: We support the need for an ever increasing role for non-profits, benevolent lending, and community development banks. Every means of leveraging national and community capital resources must be employed.

III. The Nation's Existing Low-Income Housing Stock: NCSHA concurs with the call for improving the existing low-income housing stock and preserving federally assisted housing. Resources of the type recommended by the Task Force will be needed. With the costs often involved, these resources must be available for use individually or in tandem. Moreover, we support the concept included in the recent housing authorization bill of state preservation plans and urge that these become components of a more comprehensive state housing plan.

IV. Public Housing: NCSHA recognizes the important role public housing has historically played and must continue to play in the availability of low-cost rental housing. We support recommendations to maintain quality public housing and agree that opportunities for tenant ownership of units should be carefully explored.

V. Tax Policy and Low-Income Housing : With substantial experience in multifamily finance, HFAs are keenly aware of the relationship between low- and moderate-income housing and tax incentives. The Low-Income Housing Tax Credit must be improved and extended. Such efforts must be accompanied by changes to tax-exempt multifamily bond financing that restore the viability of this low-cost financing vehicle. NCSHA endorses the task force's recognition of the value of favorable tax treatment for low-income housing. For example, one of the most efficient means of preserving the assisted low-income housing inventory is through tax-expenditures. Lastly, it is critical that any programs created either through direct or tax expenditures be coordinated for maximum effectiveness.

VI. The Gap Between Housing Costs and Income: The rental burden for the very low-income has been well documented. To produce affordable rental housing for this population is extremely expensive and requires individual renter's income to be supplemented. As the major financier of Section 8 rental housing, HFAs clearly understand this because the value of the rental assistance guaranteed economically viable developments. In fact, NCSHA could envision some states using HOP funds in this manner.

Recommendations on The Housing Finance System, Fair Housing, and Housing in Rural America encompass homeownership and affordable rental housing. Strong federal insurance programs, secondary markets, and a more aggressive implementation of the Community Reinvestment Act play a critical role in financing rental housing. NCSHA strongly supports strict enforcement of fair housing laws. Moreover, since some of America's most acute rental housing problems are in rural areas, expansion of resources for these areas is needed.

Conclusion

As legislation is developed, we recommend a three part approach to housing programs, encompassing homeownership, affordable rental housing, special needs and homeless assistance.

Homeownership is the subject for another discussion in which we look forward to participating. With regards to the other components, the following should be included in proposed legislation.

NCSHA endorses the creation of a new source of housing capital and recommends that it be structured like the existing state housing finance agencies as a quasi public-private agency. It could issue bonds (taxable & tax-exempt) in order to create the necessary funds to implement the new generation of rental housing programs.

Before the Mortgage Subsidy Bond Tax Act of 1981, state HFAs had the capacity to earn additional revenues from bond issues. These revenues still provide an ever-increasing source of funding for programmatic innovation. The tax component of any proposal should reinstate this concept. Furthermore, if the above financing vehicle is created, we recommend that earnings on investments similarly be retained for housing program purposes.

In addition, any comprehensive approach to rental housing should address rental assistance, preservation of inventory, incentives for the expansion of non-profits, and the housing needs of special populations including service components.

In the end, any housing efforts require hard cash. Economic feasibility, or profit, is not illusory; developers and lenders, like all members of the private sector, require a reasonable economic return. However, this is a value which is highly negotiable. States, because of their proximity to the scene, are the most appropriate government component in this financial equation.

Again, let me emphasize that states are becoming stronger participants in housing, increasing both their programmatic capacity as well as their financial commitment. In this regard two points must be made. First, these increases have not only taken place in a time when the federal role has dramatically decreased, but have brought about a host of innovative initiatives characterized by creativity and entrepreneurialship. States today are much more than conduits and implementors; they are also designers, developers and risk-takers. Second, the increase in committed state resources still falls considerably short of the levels necessary to meet the housing needs. Individual states have no control over regional capital shortages or economic cycles.

From a national perspective, there is little choice. The problem outstrips the resources of individual states even when combined. Therefore, it is in the mutual interest of the federal and state governments to accelerate the momentum toward greater state involvement in delivering state resources. This will require trust in the form of flexible and coordinated federal programs. The benefits will be programs more successfully directed toward the unique and varied housing problems in any given area market.

NCSHA congratulates you, Senators Cranston and D'Amato for your leadership on this project and applauds the work of the task force. It is only through these efforts that the housing crisis facing our nation will draw Congressional attention and action. NCSHA looks forward to working with this committee on the shaping of future housing policy and pledges its full support.

TESTIMONY OF CHARLES L. EDSON

SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

SENATE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE

THURSDAY, APRIL 14, 1988

My name is Charles L. Edson of the Washington law firm Lane and Edson, P.C. I thank you for the opportunity to testify on the report of the National Housing Task Force. Although the views stated are my own, they reflect the policies of the Council for Rural Housing and Development and the National Leased Housing Association, two organizations represented by our firm. Indeed, we are pleased that the key suggestions made by each of these organizations in its submission to the Task Force were accepted by this distinguished group.

I have been actively involved in low income housing programs for exactly twenty years and during that time have read an endless number of task force reports, studies, compilations and analysis on our housing programs and problems. The report of your Task Force is one of the very best. From its moving introduction, through its comprehensive statement of need, into its detailed recommendations, the Report is an elegant, forceful and thoughtful presentation of today's housing needs and what to do about them.

The HOP Program

Specifically, the cornerstone of your recommendations - the HOP program - is an excellent suggestion. Speaker O'Neill once said that all politics are local, and the same can be said about housing needs. What better way to meet housing needs than to make funds available to states and localities so that they can tailor their own programs. The Community Development Block Grant provides not only an apt precedent, but has also helped to establish significant local capabilities in the housing field. Further, the HOP concept obviates the need for debate on the national level on such issues as whether we should emphasize new construction for low income people, or utilization of the existing stock. Instead, each community can and should decide that question for itself based on its own supply of existing housing and its desire to trade off a small number of new units against the large number that can be housed in existing stock.

I do have some cautions about the HOP program.

First, it should not be expected that this program can be used to meet all of housing's needs. For example, a city should not be expected to use HOP funds to replace expiring federal subsidies. Although your report emphasizes that HOP funds should only be utilized to maintain presently unassisted stock as low income, I could well envision that a funds-starved Congress could extend that usage to enable local communities to use such funds to replace expiring federal subsidies. HOP funds are far too limited, with too many demands upon them, to meet the pressing needs of maintaining the current supply of federally-assisted housing HOP is not a breeder-reactor. It does not produce funds by spontaneous generation, and therefore its uses must be limited.

Second, a community should not be unduly restricted in utilization of HOP funds. For example, if the low-income targetinbg requirements are too severe, a locality would be precluded from using such funding for the needed purpose of increasing the housing supply generally, or to provide for home ownership opportunities. In that regard, the Task Force suggestion that for non-matching portions of the funds, state and local governments must utilize 80% thereof at or below 50% of median may be too severe. For example, a community may want to utilize its funds to support a moderate income elderly project limited to residents who move out of single family houses which in turn would be occupied by subsidized low income families. A stringent occupancy income limit would stifle such imaginative approaches.

Other Recommendations

Although all of the Report's recommendations are worthy of support, limited time restricts these comments to multifamily programs - the focus of concern of the groups that we represent.

First, the Task Force should be commended for recommending the continuance of Section 8 rental assistance programs such as the Section 8 existing certificate program, or vouchers. Time does not permit an analysis of the merits of either of these two programs, but basically both rest on the premise that our existing stock should be utilized to house low income families. These rental assistance programs are a necessary complement to the HOP program. I can well envision many communities utilizing HOP funds to moderately or substantially rehabilitate existing apartments for rental to tenants with Section 8 certificates or vouchers. Certificates are also useful in combination with projects receiving the benefit of the low income housing tax credit discussed below.

Second, we commend the Task Force for its support of the low income housing tax credit program established in the 1986 Tax Reform Act and its call for elimination of the 1989 sunset date and extending the program indefinitely. That program is now working to enhance our badly needed rental stock available to low income families. The Task Force's suggested changes to the tax credit programs are thoughtful ones, and these, as well as others, deserve the support of the tax writing committees. Our firm has been asked to represent the newly-formed Coalition to

Senator **Cranston**. Thank you, very much.

Al, why don't you lead off with questions this time?

Senator D'**Amato**. Thank you, Mr. Chairman. Let me congratulate you again for bringing to us this distinguished panel of people to cover not only public housing but the construction of rental housing and private housing.

Mr. Fried, you mentioned and brought to our attention the fact that in New York City since the passage of the Tax Reform Act of 1986, that there has been virtually no construction as it relates to rental units for low income families.

Is that correct?

Mr. **Fried**. Yes, there has been little if any new rental units for low income families financed through the tax exempt bond funds.

Senator D'**Amato**. You also indicate that you find the major difficulty as it relates to the high cost, that the rents would be on those tenants who are more affluent as it relates to making up the subsidy due to a 50 percent median income tax?

HIGH COST OF CONSTRUCTION IN NEW YORK CITY

Mr. **Fried**. Correct.

New York City is not unique, but has a particular problem, as do many major metropolitan areas: A very high cost of construction, coupled with a low median income. So that the rents needed to——

Senator D'**Amato**. What is the median income?

Mr. **Fried**. I believe the median income in New York is in the $21,000 range for a family of four.

Senator D'**Amato**. $21,000.

So that in order for a person to qualify, their income would have to be below $11,000?

Mr. **Fried**. Yes.

Senator D'**Amato**. Go ahead.

Mr. **Fried**. And they would have to pay rent equal to 30 percent of that, which is approximately $3,000 a year, or a rent in New York of under $300 per month. The rent in New York City just to meet the costs of building in New York City, because of the high construction costs, are for a two-bedroom apartment in the neighborhood of $2,100 a month.

That means that 80 percent of the units that are occupied by middle income taxpayers have to subsidize nearly $1,700 a month. That makes the projects unfeasible and it is the reason why housing has not been built under the tax exempt bond program in New York City.

Senator D'**Amato**. Now, let me ask you, if the figure of 80 percent median income were there, would you say that that same problem would exist, or would you be able to build rental housing for low income as well as more affluent?

Mr. **Fried**. I guess my grandmother always said, the proof of the pudding is in the tasting. Because of the number of units that were built under the 80/20 program, using the 80 percent median income in New York City during 1984, 1985, and in the beginning of 1986, the carryover units, that proves it, because there were thousands of units built. My company alone built over 2,000 units of 80/20 housing in Manhattan alone, and those projects worked under the old rules. They do not work under the new, more stringent requirements.

Senator D'AMATO. So at 80 percent, using $21,000 as the median income, that family would have to have an income of $16,000 or thereabouts, or less—that margin. Was that still a 30 percent rent?

Mr. FRIED. It would be a 30 percent rent; yes.

Senator D'AMATO. So you are talking about paying $480, approximately, to $500 a month, and that being the difference.

Mr. FRIED. Yes. And that has worked.

Senator D'AMATO. Mr. Zigas, if I understand, and I don't mean this to be adversarial, but we are attempting to work through a problem here—you have lobbied quite extensively as it related to bringing that figure down from 80 percent to 50 percent of median income, and I might say quite successfully.

Are you pleased with the result?

Mr. ZIGAS. Well, Senator, let me try to give some background in answer to that question.

Senator D'AMATO. No, no.

Are you happy? You heard Mr. Fried.

Mr. ZIGAS. I am happy that the Federal Government has resolved, in a country which has a national median income of nearly $30,000 this year, to focus its housing assistance efforts on those with incomes of less than $15,000.

MEDIAN INCOME

Senator D'AMATO. As it relates to the construction of rental housing under this particular program, do you believe that reducing that median income from 80 percent to 50 percent has achieved its purpose, if indeed what Mr. Fried has indicated is true, that you have no construction of any housing as it relates to that program?

Mr. ZIGAS. If you will allow me to answer the question in my own fashion, I think I can satisfy your question, because it is a very valid and relevant question.

First of all, I think it is important to note that before 1986, incomes were not adjusted for family size, so that you could in fact put people at the median income for a family of four, who had smaller family sizes and therefore were qualifying at a higher income than you would by adjusting for family size. And the GAO in reporting on the successes of the bond program, said that in many cases they found that the 80 percent of median threshold was being met at the income level for a family of four, by families of substantially fewer.

Second, it was shown in the GAO report as well, and there was no congressional requirement that rents be pegged at 30 percent of even the tenants income, and it was clear that many tenants in the set-aside units in the 80/20 program throughout the country were paying substantially in excess of 30 percent of their income for rent.

What happened in 1986 was that the Congress said, if we are going to make available these subsidies, we would like them to be used to serve those most in need. Tenant median income is half of the household median income, so we are now talking about tenants whose incomes at the median are running nationally about $15,000, not $30,000, so we are actually serving people at 80 percent of the median who are in excess of 100 percent of renter median. These are points that GAO has made to this Committee over and over again.

I think the key thing we have to remember is these bond programs were very successful generators of financing for properties that served low income people when they were coupled with the appropriate direct subsidies that made it possible to provide rents that they could afford.

We have in the last 8 years found ourselves confronted with the horrible dilemma of having lost the direct construction subsidies and the substantial support for rent assistance that made that possible, having only one vehicle left, which was tax subsidies, and trying to make a silk purse out of a sow's ear, and saying we have these vehicles and we have to do what it takes to make them work.

I think Congress has to confront two separate issues here. One is, to the extent they wish to support market rate rental housing through tax policies that recognize its value and the complications of building it and come up with a fair set of principles. I suspect the 1986 tax act went way overboard in penalizing real estate.

The second question Congress has to confront is what incentives are they prepared to offer to induce investment in housing that serves low income people and confront the extremely high cost, particularly in communities like New York, that that is going to entail, and not ask for us to keep adjusting programs, public policy goals, in order to make them work, and instead say what do we have to add into this mix to make them work for low income people.

One final point I would make is during the 1986 tax act——

Senator D'AMATO. Now, just wait a minute.

Mr. ZIGAS. During the 1986 tax act——

Senator D'AMATO. Mr Zigas, will you please hold on? You have been more than responsive and you have gone into what I would call a filibuster.

We are talking about the 50/80 figure. The fact of the matter is that the Tax Reform Act did put an income based on family size and address the problem raised by the GAO.

And now the question I am proposing to ask you once again, is in light of Mr. Fried's testimony—and I don't believe it is just New York—you will find in many, many, many areas you will have no participation under this program as a result of the limit being brought down from 80 to 50 percent—are you willing to look at that question once again to reappraise whether or not you would lobby for the retention of 50 percent or raising that limit?

Mr. ZIGAS. We will continue to lobby for maintaining the limit of 50 percent and we will continue to lobby this committee to provide the subsidies necessary to serve that population.

Senator D'AMATO. Well, let's understand the real world. If we are going to try to do it as it relates to a tax program in bringing in private investment, then what you are saying is you are against private investment realistically ever undertaking that if you are going to maintain that 50 percent level.

You are against this program, the 80/20 program.

Mr. ZIGAS. I beg your pardon?

Senator D'AMATO. You must, of necessity, be against the 80/20 program.

Mr. ZIGAS. No, I am not against an 80/20 program.

Senator D'AMATO. Well, you have heard an expert. Do you disagree with his numbers?

Mr. ZIGAS. I am in no position to disagree with his numbers.

Senator D'AMATO. His conclusions are that there will be no housing built under this program basically. And if I am wrong, Mr. Fried, there will be none built if you maintain this artificially low 50 percent median income.

Are you helping low income families if you don't have that?

You understand I want to help low income families. And if you are going to mix the subsidy question up with the 80/20 program, I just think we do it a great disservice.

Mr. ZIGAS. I would simply restate, Senator, that I believe that the question is that building housing for low income people is more costly than the tax subsidy can provide the money to make work. And this committee needs to work with the Finance Committee to marry those subsidies together, as they have in the past, so that it will work to meet the needs of the population that is most in need.

Senator D'AMATO. Thank you.

Mr. Luallen, let me ask you about the mortgage revenue bonds and the volume cap and the minimum tax.

It would appear that as a result of two things, No. 1, if we don't extend the mortgage revenue bonds beyond 1981, we don't have to worry about that volume cap, artificially low, and also placing the housing bonds under that cap.

Let me ask you for an analysis of what that has done for the program.

MORTGAGE REVENUE BONDS

Mr. LUALLEN. I am glad you asked that, and quite frankly I hoped you were going to.

Although I was not a member of the task force, we did submit testimony, the National Council of State Housing Agencies advocated the removal of both AMT and the volume limitation on both MRB's and on the multifamily bonds.

The effect of the volume cap is dramatic, particularly in your State of New York and Senator Cranston's State of California, any single purpose underneath that cap can utilize the entire cap. Second, it also serves as a delay for you to utilize funds for needed projects that you may have either in the pipeline or on the drawing board.

We believe that the subjugation of MRB's to the AMT, it reduces the spread between mortgage revenue bonds and taxable bonds, for one thing, but when you have an increased cost of issuance of mortgage revenue bonds or the multifamily bonds that increase in cost to the agency, is to be passed on to the developer, translated as passed on to the ultimate renter, which means that higher interest rates mean higher income groups. Lower interest rates are lower income groups.

If we can get rid of these two things, particularly AMT, we can reduce interest rates and reduce rents, and therefore help a lower income group. So I would advocate the elimination of both of them.

Senator D'AMATO. Mr. Chairman, one of the most frustrating aspects of our work in attempting to create the incentives as it relates to housing, particularly to housing for low and moderate income families, is the fact that we do run smack up into the tax writing committees.

Also, and I am not questioning the motivation of Mr. Zigas or his organization, but I do think you have to look with a little more discernment as it relates to targeting various income levels for specific programs. And as it relates to the private sector 80/20 program, that we do a disservice by keeping an artificially low percentage. That disservice is that there will be no housing, as a practical matter, built when that limit is 50-percent.

I would urge you, in a constructive manner, just to examine that aspect of it. I am not suggesting to you as it relates to other housing programs and other subsidies, particularly where there is involved a direct subsidy from the Federal Government, that a 50 percent figure may not be the correct one. But as it relates to this particular figure where the private sector cannot absorb that differential, or will not, I think we may be doing people a disservice, working families, et cetera.

I really ask you in good faith to take a look at that.

Thank you, Mr. Chairman.

Senator CRANSTON. Thank you, Al.

The major thrust of the task force recommendations is that we should expand Federal funding for housing production, but transfer more responsibility for program design to States and the local government.

I favor that, but I am concerned that State and local jurisdictions differ widely in their capacities, fiscal and otherwise, in the political will to improve housing additions.

Do you have any suggestions, any one of you, on how Federal policy can be tailored to take those differences into account?

Mr. Edson.

SUGGESTIONS FOR TAILORING FEDERAL POLICY

Mr. EDSON. Mr. Chairman, I think CDBG is a good model. It has broad scale guidelines for use of funds, targeting, public participation and input, yet lets the community meet most issues in its own way. I think that combination could be a good carryover.

Also, we now have capacity that we didn't even have in 1974 when we put in CDBG. I think the localities are becoming not only aware of the housing problem, but able to deal with it. And, finally, it is becoming far more of a political issue at the local level so that the fear we had 15, 20 years ago that the localities would thwart this type of housing is less, because I think that they will now welcome it.

Mr. ZIGAS. Mr. Chairman, I would simply add that I think, speaking for the task force and also for my organization, because we agree wholeheartedly here, I think the assumption about passing on this responsibility was always meant to be coupled with a very strong set of requirements about targeting and direction, and also a requirement on the localities, that they plan extensively and seriously for the use of the money and to produce goals against which their progress can be measured, so that the Federal Government's monitoring responsibilities here are assumed to be quite great; that it is not simply putting money on the stump and walking away from it, but simply to induce this kind of participation which I think is quite possible.

Senator **CRANSTON**. Mr. Luallen.

Mr. **LUALLEN**. From the standpoint of my participation over 9 years as an executive director of a State housing agency and observing other State agencies throughout the country, I think that if the Federal Government, through your task force and through your hearings here, can establish a housing program with proper incentives and directions and targeting, the States then will develop housing programs. We can deliver.

I think Barry and all of the other panelists are correct, we do need certain tax incentives as well as some general direction. However it should be left to the States to take care of their own particular needs.

Mr. **TURPIN**. Senator Cranston, I would endorse the comments that have just been made by the previous panelists and only add that local redevelopment and housing authorities are creatures of State government who have demonstrated capacity to not only develop housing directly, but to enter into public/private partnerships with profit-motivated developers who generally have been most productive in producing help for lower income families and have been in a position to enter into relationships with city councils and their community-based corporations, nonprofit corporations, to produce housing.

So I would think that, as the previous panelists have indicated, with proper incentives and technical assistance provided by the Department of Housing and Urban Development that you could generate that demand and generate the program responses that one needs if you put emphasis on going to those agencies that have a proven track record of production.

In Richmond, for example, of 90,000-some households in the city of Richmond, roughly 11,500 are assisted units, either through the 5,000 to 6,000 that are associated with public housing and section 8 existing, to the remaining units that have been produced by the private sector in either section 8 new construction, rehabilitation or, FHA below market interest rate programs.

In the case of our city, less than 100 units of assisted housing has been produced by private nonprofit corporations. The bulk of the activity has been through the local redevelopment housing authority and through the profit motivated sector. And it has been most effective.

Senator **CRANSTON**. Mr. Fried, you and Mr. Turpin were those that were most critical of aspects of the task force report.

I would like to ask each of you this: From your perspective, what are the strongest recommendations and the best in the report?

BEST PARTS OF TASK FORCE REPORT

Mr. **Fried**. I limited my remarks to the financial aspects, but in general a new production program is most needed, such as the HOP program. I think the changes to the tax laws are also needed, because the HOP programs will by and large be used by the public sector. In order to encourage the private sector to get back into this business in the way in which it was in the business in the early 1980's it is going to need a program that is workable on its own.

The tax exempt bond financing was a wonderful program because it encouraged private developers to develop housing on their own in which 20 percent of it was low income in order to develop the 80 percent of it. There weren't any additional subsidies coming in. It was a program that was pure in and of itself and private developers could do that on their own.

So making the tax exempt bond programs work and making the low income tax credit a little bit more workable is necessary. As I said, we have raised $80 million for low income tax credit properties but I am having a very hard time putting that money out to preserve existing housing and also to create new housing. Again, the income limits are very troublesome.

So in my view, the best parts of the report are the HOP and the suggestions of changing the tax limitations on these programs.

Senator **Cranston**. Thank you.

Mr. Turpin.

Mr. **Turpin**. Senator Cranston, I think I should make it very clear that I feel that the report is an excellent product. In a very dramatic way, it points up the need for a housing production program in this country. And that, to me, is obviously the most important feature of the work that you and Senator D'Amato have been involved in with the Task Force.

I shouldn't say our only concern, but our primary concern is that in pinpointing the crisis in calling for production, knowing that the crisis is there, we suggest that the best way to go about meeting that crisis is to deal with those entities that have a proven track record in production.

I suggest to you that the public agencies in partnership with the profit-motivated developers and nonprofits who have a track record, is the most effective way to produce housing.

Senator **Cranston**. I would like to ask this question of Mr. Edson, Mr. Luallen, and Mr. Zigas.

What recommendation of the task force are you most uncomfortable with? You expressed one, Mr. Edson. Do you have any others?

WORST PART OF TASK FORCE REPORT

Mr. **Edson**. I thought there was too tight a targeting on the HOP program.

Senator **Cranston**. I want to explain we have a roll call going on. Senator D'Amato is going to run over and vote first, and then I will run over and vote so we can keep going to the best of our ability.

Mr. **Edson**. I cannot think offhand of an overall recommendation of the task force that I disagree with. I have certain questions on how the HOP would be structured. But there is not a negative recommendation in the report.

Senator CRANSTON. Mr. Luallen, any part that you are uncomfortable with?

Mr. LUALLEN. No, in a word. But one of the things that does concern is, and I am not being condescending here, Senator, the report keys in on so many of the things that need to be done and reports out so many of the things that you think need to be done, my only concern is that there will be some people who will think of it as being too costly if you take it all at one time.

That concerns me.

Senator CRANSTON. I really ask two things of the task force. One, don't come in with a big costly program; and two, be as innovative and creative and practical as you can.

The figure is just a little over $3 billion per year for what they are recommending.

Mr. LUALLEN. Let me say from my standpoint, and I have said this at home to whomever will listen, too, that this whole discussion on housing is not a referendum on our tax policy. It is a referendum on whether we are going to house low income people in this country. And to me, to some degree, no expense is too great.

But I know what you have to deal with in the political realities.

Mr. EDSON. If I might add, Mr. Chairman, I think one of the strengths of the report was the fact that you came in with a reasonable price tag. The $3 billion I think is relatively small, rather than what we housing people tend to say, which is cut the defense budget by a third and put it into housing.

There was none of that irresponsible rhetoric in the report, and that is one of its great strengths.

Senator CRANSTON. Good.

Barry.

Mr. ZIGAS. Senator, I would say I don't believe that any of the sins perhaps of the task force would be any I would mention by commission. I think, having been a member of the task force and having worked hard with my membership on reviewing it, I think the task force really made a heroic effort to come up with a broad set of recommendations.

I think my concern with it is actually a little different than the other members, but on the same topic. That is, I think having identified such a gargantuan need, having drawn on the data from the Harvard report and others about how terrible this problem has become and how much worse it is becoming, that my concern is that the levels of assistance recommended are going to be insufficient to meet that need.

And I hope it is seen only as a first step and that we are able to recognize through this process how much more will be necessary.

So if I have a negative about it, I think I would say we have put the problem on your doorstep and we have recommended a very small step forward, and hope we don't raise expectations that are unreasonable.

Senator CRANSTON. As a member of the task force, do you have any responses to some of the criticisms that have been voiced, particularly by Mr. Fried, Mr. Turpin, and a little bit by Mr. Edson?

Mr. **Zigas**. I hesitate to speak for the entire task force, but having been involved in that, I will say that some of my responses to Mr. Fried's concerns, I think, I tried to respond to with Senator D'Amato's questions, and I will just let those stand.

As far as the concerns about which mechanisms are used to pursue the development of new housing, my only reaction really would be that the problem is so immense and there are so many things that need to be done, I really hope that we don't end up having our conversation degenerate into who should do it. That really isn't the point.

The task force went to great lengths, as I tried to say in my statement, to emphasize there should be a multiple variety of delivery systems to help attack this problem; that the more people doing this, the more institutions that were dragged into it and that were induced into it, the more successful the efforts will be.

The recommendation that 10 percent of these funds be set aside for use by nonprofit organizations strikes me as leaving lots and lots of room for existing institutions to operate. The task force report does in fact praise public housing agencies for the successful work they have done, and I think the expectation has always been in our conversations, they would be active participants.

I hope, however, that existing institutions don't feel compelled to attack those who are just emerging. We do have in many States and localities a lot of on-the-ground capacity to do housing by low-income community-based nonprofits, and we should be trying to encourage that because the more hands that stir the soup, the better it will become.

Senator **Cranston**. I am going to yield to Senator Sasser. I am going to rush to the floor.

Senator **Sasser**. Well, I am going to follow you out the door. We have got five bells and I just ask unanimous consent that my statement be included in the record.

Hearing no objection, since I am the only one here, it will be included. [Laughter.]

Gentlemen, the subcommittee will stand in recess subject to the call of the Chair, which ought to be about 10 minutes.

Thank you.

[Recess.]

Senator D'**Amato** [presiding]. The hearing will come to order. Senator Cranston is making necessary other committee assignments and will join us in a few minutes. We have our second panel.

Why don't we start with Paul Carling, Center for Change through Housing and Community Support, from the University of Vermont.

STATEMENT OF PAUL CARLING, PH.D., CENTER FOR CHANGE THROUGH HOUSING AND COMMUNITY SUPPORT, UNIVERSITY OF VERMONT

Mr. **Carling**. Good morning, Senator.

My name is Dr. Paul Carling. I direct the Center for Change at the University of Vermont, which is the only national research and technical assistance center focused on the housing needs of over 2 million Americans with severe and persistent mental illness.

We not only do research, but we work very closely with State and local mental health agencies throughout the United States to help them improve their housing and support service programs for this population, and we work with advocacy groups as well.

The material I am presenting today represents my own views and those of the National Mental Health Association, a private voluntary organization providing leadership to confront the entire range of mental health issues at National, State, and local levels.

The committee has a more extended version of my comments, so today I am going to just briefly summarize the significant progress the mental health field has made in its ability to support mental health consumers in local communities, and then I want to propose some specific ways that HUD, through changing current programs and creating new ones, can help provide the missing link upon which all else depends for these citizens, which is housing.

NEEDS OF THE MENTALLY ILL

I should stress that my comments are quite consistent with the National Housing Task Force Report. The key issue as I see it is making these new opportunities accessible to people with mental illness. The report is silent on the needs of people with mental illness for the most part and the needs of people with disabilities in general.

I should also emphasize at the outset the enormous cost of not meeting these housing needs. Many thousands of Americans languish in expensive institutions, who do not need to be there. Many more thousands are homeless and their numbers are growing astronomically. So we simply cannot afford to put off the urgent need of people with mental illnesses for decent housing.

A wealth of National and State studies produced over the last decade now show that housing needs of this group are largely unmet, and that they typically lack the services and supports they need to succeed in local communities.

But we also have a growing body of convincing evidence that where decent housing and relevant supports are provided to these individuals, they can be productive and participating members of our society.

MAJOR CHANGES IN MENTAL HEALTH IN LAST DECADE

In outlining some of the ways that Federal policy and HUD can be helpful, I want to review some of the major changes that have occurred in mental health in the last decade, because I think it is important to understand where the field of mental health is if we are talking about helping people with housing.

In the early days of deinstitutionalization, we used to think that people failed in the community because of their mental illness, but in the late 1970's, largely through the efforts of the National Institute of Mental Health's Community Support Program, we came to understand that people need a specific and well-organized array of services and supports. This is called a "community support system" and it is the model which virtually all State mental health departments have adopted in the last decade.

As mental health systems have begun to provide more relevant services such as case management, outreach, 24-hour crisis services, and rehabilitation, we begin to understand that the reasons that many people fail have less to do with mental illness than we thought. Far more critical are such factors as the growing shortage of affordable housing, the fact that mental illness is economically catastrophic and that most people with this label live in poverty and are unemployed.

Available data, for example, suggest that the average income for people with long-term mental illness in this country is about $3,000 per year, so that no broad efforts to help with their housing will succeed without subsidies and income supports.

Discrimination by landlords is also a day-to-day reality in the lives of these individuals, and families face enormous burdens as they become the primary place of discharge for individuals coming out of mental institutions. As families age, these individuals have no place to go, and they face the risk of homelessness in many cases.

In the last decade, we have seen a veritable explosion of residential programs in mental health which, while they still serve only a small fraction of those in need, provide striking evidence of the growing commitment of mental health agencies and a few housing agencies to become involved. For example, we collect data on nearly 6,000 community residential programs nationwide specifically developed to serve this population.

This decade of experience in developing programs has also provided valuable learnings to us about the future directions we should be pursuing. My point in just briefly outlining these future directions, is to encourage you in the development of any Federal housing policy and any reformulation of HUD programs, to make sure that the kinds of assistance that you are targeting to people with special needs and people with mental illness is consistent with where we are going in the future, rather than where we have been in the past.

So I will briefly outline for you what we have learned through providing more effective community services in those places in the country where we are doing that.

COMMUNITY SERVICES

The first thing we have learned is that the housing needs of people with long-term mental illness are no different than those of any other group. What is different is their need for specific supports and services.

Second, we have learned that the overwhelming majority of mental health consumers want to live in their own housing, with services and supports provided only when they want and need them. In other words, they don't want to live in programs or in facilities, but they want to live in homes just like the rest of us. And the great majority do not want to live in staffed congregate settings with groups of other ex-patients. A growing number of consumers are becoming interested in owning their own homes, particularly if we can help with the financial arrangements and if we can provide ongoing support.

Third, we have learned that in communities with high-quality services, people can be supported in regular housing with the same intensity of help that we used to think was the special province of a halfway house or, in some cases, even a hospital.

Fourth, and this is very important when you think about the McKinney Act and the positive and negative aspects of that, we have learned that the concept of "transitional services" is very problematic. People with severe and persistent mental illness have a great deal of involuntary transience in their lives already and don't need programs with time-limited stays to have them be even more dislocated. Instead, they need permanent housing and supports.

These learnings, and the directions we're proceeding in as a field, are referred to as a "supported housing" approach. Groups as diverse as the National Institute of Mental Health and the State Mental Health Commissioners Organization have endorsed the "supported housing" approach.

Let me briefly describe some examples of the explosion of interest and creativity at both the State and local levels, that I see as I travel throughout the country.

State mental health agencies are developing more relevant financing strategies, using both capital resources and income supports. They are working with the private sector, with foundations, with neighborhood development groups and with housing agencies at all levels. They are experimenting with development partnerships which produce integrated affordable housing for people with and without disabilities. And they are changing the nature of the services they provide in communities.

First, any new housing legislation should take a clear position on what it is the Federal Government is trying to accomplish. If HUD's mission is to support people with special needs, including those with major mental illness, in decent permanent housing, they are going to have to begin to develop very different financing approaches which expand housing options and which help them to work more closely with State mental health agencies, the major providers of support services.

Second, you have heard for years about the significant problems with the section 202 program. They simply need to be addressed. It is too expensive, too slow, it is highly bureaucratic, and it bypasses mental health services agencies. It is simply not compatible with the major directions our field is moving in. Recent proposals to "block grant" the section 202 program are simply another indication that we need to address the major shortcomings of this program.

Third, HUD obviously has a critical role to play, as emphasized in the task force report, in expanding consumers' income, such as through section 8, and the mental health community is in favor of a very significantly expanded section 8 program, particularly the voucher program.

One other benefit of an expanded section 8 program would be that it would improve the incentives for cooperation between public housing authorities and local mental health agencies. Obviously, HUD also has a critical role to play in stimulating development of affordable housing and we would encourage you to consid-

Preserve the Low Income Housing Credit, and this new group is greatly encouraged by the support the credit has received from your Task Force.

Third, the Task Force recommendations on housing in rural America are especially commendable, particularly in its recommendation that the Section 515 program be continued. In August 1987, the General Accounting Office in its report on Rural Rental Housing found the Section 515 program is indeed meeting its program goals in a very cost-effective manner. For example, the average income of a Section 515 tenant is only $8,179. Interestingly enough, GAO found that the long-term cost of subsidy under Section 515 is less than that of vouchers. This is high praise from our watchdog federal agency.

To conclude, Mr. Chairman, again let me thank you for the opportunity to testify today, both personally, and on behalf of the organizations we represent. We look forward to working with you and your able staff to fashion the HOP program into legislative reality as we have done with every major housing program for the past twenty years.

er any number of partnerships between State and local agencies and HUD in achieving this goal.

The committee should consider a mechanism in which a variety of HUD development-oriented programs, such as section 202 and the section 8 rehabilitation programs could be combined with State funds to create housing development trust funds at the State level. Pennsylvania is already moving in this direction. New York is considering it. It is a major direction that HUD could help with.

Fifth, the use of tax credits could be significantly expanded for people with special needs by creating incentives at the Federal level.

So, in closing, I would like to emphasize that mental health authorities and advocacy groups are poised on the brink of finally developing much more effective systems of supports in our local communities for people who, until now, had only the options of hospitals or homelessness. The missing link is their own housing.

This committee has a unique opportunity to begin reorienting Federal housing programs to these new realities in mental health by including people with mental illness in all task force recommendations. This will be a major step forward to meeting the needs of consumers in ways that they would like to have them met.

I would be happy to respond to any questions.

[The complete prepared statement of Mr. Carling follows:]

COMING HOME: MEETING THE HOUSING NEEDS OF PEOPLE WITH LONG TERM MENTAL ILLNESSES

TESTIMONY PRESENTED TO THE
HOUSING AND URBAN AFFAIRS SUB-COMMITTEE
OF THE BANKING COMMITTEE

UNITED STATES SENATE

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PUBLIC POLICY COMMITTEE

APRIL 14, 1988

INTRODUCTION

GOOD MORNING. I AM PLEASED TO TESTIFY ON THE HOUSING NEEDS OF PEOPLE WITH SEVERE AND PERSISTENT MENTAL ILLNESS. THE MATERIAL I AM PRESENTING TODAY REPRESENTS MY OWN VIEWS AND THOSE OF THE NATIONAL MENTAL HEALTH ASSOCIATION, A PRIVATE VOLUNTARY ORGANIZATION PROVIDING LEADERSHIP TO CONFRONT THE ENTIRE RANGE OF MENTAL HEALTH ISSUES AT NATIONAL, STATE AND LOCAL LEVELS. I AM GOING TO BRIEFLY OUTLINE FOR YOU THIS MORNING THE SIGNIFICANT PROGRESS THAT THE MENTAL HEALTH FIELD HAS MADE IN IT'S ABILITY TO SUPPORT CONSUMERS IN LOCAL COMMUNITIES, AND PROPOSE SAME SPECIFIC WAYS THAT HUD, THROUGH CHANGING CURRENT PROGRAMS AND CREATING NEW ONES, CAN HELP PROVIDE THE MISSING LINK UPON WHICH ALL ELSE DEPENDS: DECENT HOUSING. I SHOULD EMPHASIZE AT THE OUTSET THE ENORMOUS COST OF NOT MEETING HOUSING NEEDS. THOUSANDS OF AMERICANS LANGUISH IN INSTITUTIONS WHO DO NOT NEED TO BE THERE. MANY MORE THOUSANDS ARE HOMELESS AND THEIR NUMBERS ARE GROWING ASTRONOMICALLY. SO WE SIMPLY CAN NO LONGER AFFORD TO PUT OFF THEIR URGENT NEED FOR DECENT HOUSING.

IN TERMS OF MY OWN BACKGROUND, I HAVE BEEN INVOLVED WITH THIS ISSUE FOR OVER A DOZEN YEARS. CURRENTLY, I DIRECT THE CENTER FOR CHANGE THROUGH HOUSING AND COMMUNITY SUPPORT AT THE UNIVERSITY OF VERMONT. IT IS THE ONLY NATIONAL RESEARCH AND TRAINING CENTER FOCUSED EXCLUSIVELY ON THIS PROBLEM. WE DO RESEARCH ON STATE AND LOCAL EFFORTS THROUGHOUT THE UNITED STATES TO SUPPORT PEOPLE WITH MAJOR MENTAL HEALTH PROBLEMS IN THE COMMUNITY, AND HAVE WORKED

ON-SITE IN OVER 40 STATES TO HELP DEVELOP BETTER SERVICE SYSTEMS. MY BACKGROUND IS DIVERSE: I AM A CLINICAL PSYCHOLOGIST, HAVE BEEN A STATE MENTAL HEALTH OFFICIAL, AND WAS A STAFF MEMBER OF THE NATIONAL INSTITUTE OF MENTAL HEALTH RESPONSIBLE FOR WORKING WITH HUD TO IMPROVE THEIR PROGRAMS. I RECEIVED THE FIRST HUD 202 AWARD IN MENTAL HEALTH IN 1976 IN A PHILADELPHIA PROGRAM I WAS DIRECTING, AND WAS CLOSELY INVOLVED IN THE HUD/HHS DEMONSTRATION PROGRAM FOR THE "CHRONICALLY MENTALLY ILL." FINALLY, I HAVE BEEN A GENERAL CONTRACTOR AND HOUSING DEVELOPER. PERHAPS MY MOST FORMATIVE EXPERIENCE, HOWEVER, WAS GROWING UP IN A HUD DEVELOPED LOW INCOME HOUSING PROJECT IN MANHATTAN.

HOUSING AND SUPPORT NEEDS OF PEOPLE WITH PSYCHIATRIC DISABILITIES

I HAVE COME TO SPEAK TO YOU THIS MORNING ABOUT THE NEEDS OF OVER TWO MILLION AMERICANS WITH SEVERE AND PERSISTENT MENTAL ILLNESS FOR DECENT HOUSING AND ADEQUATE SUPPORTS IN OUR LOCAL COMMUNITIES. A WEALTH OF NATIONAL AND STATE STUDIES NOW SHOW THAT THE HOUSING NEEDS OF THIS GROUP ARE LARGELY UNMET, THAT THEY TYPICALLY LACK THE SERVICES AND SUPPORTS THEY NEED TO SUCCEED IN LOCAL COMMUNITIES, AND THAT LARGE NUMBERS OF PEOPLE CONTINUE TO LIVE IN, OR CYCLE THROUGH INSTITUTIONS AND HOMELESSNESS PRIMARILY BECAUSE OF THE LACK OF AFFORDABLE HOUSING. WE ALSO HAVE A GROWING BODY OF CONVINCING EVIDENCE, HOWEVER, THAT WHERE DECENT HOUSING AND RELEVANT SERVICES ARE PROVIDED TO THESE INDIVIDUALS, THEY CAN BE PRODUCTIVE, PARTICIPATING MEMBERS OF OUR SOCIETY. NOW THAT WE KNOW THIS, I BELIEVE WE OWE THEM NO LESS.

IN CONSIDERING HOW HUD NEEDS TO CHANGE TO MEET THESE NEEDS, IT MAY BE HELPFUL TO REVIEW VERY BRIEFLY SOME OF THE MAJOR CHANGES THAT HAVE OCCURRED IN MENTAL HEALTH IN THE LAST DECADE. IN THE EARLY DAYS OF DEINSTITUTIONALIZATION, WE USED TO THINK THAT PEOPLE FAILED IN THE COMMUNITY BECAUSE OF THEIR MENTAL ILLNESS. BUT IN THE LATE 1970'S, LARGELY THROUGH THE EFFORTS OF THE NATIONAL INSTITUTE OF MENTAL HEALTH'S COMMUNITY SUPPORT PROGRAM, WE CAME TO UNDERSTAND THAT PEOPLE NEED A SPECIFIC AND WELL ORGANIZED ARRAY OF SERVICES AND SUPPORTS. THIS IS CALLED A COMMUNITY SUPPORT SYSTEM, AND IT IS THE MODEL WHICH VIRTUALLY ALL STATE MENTAL HEALTH DEPARTMENTS HAVE ADOPTED IN THE LAST DECADE.

AS MENTAL HEALTH SYSTEMS HAVE BEGUN TO PROVIDE THESE MORE RELEVANT SERVICES, SUCH AS CASE MANAGEMENT, OUTREACH, 24 HOUR CRISIS SERVICES, AND REHABILITATION, WE BEGIN TO UNDERSTAND THAT THE REASONS THAT MANY PEOPLE FAIL HAVE LESS TO DO WITH MENTAL ILLNESS THAN WE THOUGHT. FAR MORE CRITICAL ARE SUCH FACTORS AS THE GROWING SHORTAGE OF AFFORDABLE HOUSING, THE FACT THAT MENTAL ILLNESS IS ECONOMICALLY CATASTROPHIC, AND THAT MOST PEOPLE WITH THIS LABEL LIVE IN POVERTY AND ARE UNEMPLOYED. AVAILABLE DATA, FOR EXAMPLE, SUGGEST THAT THE AVERAGE INCOME OF PEOPLE WITH LONG TERM MENTAL ILLNESS IS ABOUT $3000. PER YEAR.

DISCRIMINATION BY LANDLORDS IS ALSO A DAY TO DAY REALITY IN THE LIVES OF THESE INDIVIDUALS. FAMILIES FACE ENORMOUS BURDEN AS THEY BECOME THE PRIMARY PLACE OF DISCHARGE FOR INDIVIDUALS COMING OUT OF MENTAL INSTITUTIONS. AS THEY AGE, THEIR FAMILY MEMBERS INCREASINGLY HAVE NO PLACE TO GO, AND EVEN FACE THE RISK OF HOMELESSNESS IN MANY CASES. FINALLY, AND A CRITICAL FACTOR, IS THE WIDESPREAD LACK OF PRECISELY THE KINDS OF SERVICES THAT WE KNOW HELP PEOPLE SUCCEED.

JUST AS IT HAS TAKEN US TIME TO BETTER UNDERSTAND PEOPLE'S NEEDS, IT HAS CERTAINLY TAKEN US TIME TO RESPOND. AS LITTLE AS TEN YEARS AGO, THERE WERE ONLY A HANDFUL OF "HALFWAY HOUSE" PROGRAMS IN MOST STATES, AND HUD PROGRAMS WERE COMPLETELY INACCESSIBLE TO THIS POPULATION. THE LAST DECADE, HOWEVER, HAS SEEN A VERITABLE EXPLOSION OF RESIDENTIAL PROGRAMS IN MENTAL HEALTH WHICH, WHILE THEY STILL SERVE ONLY A SMALL FRACTION OF THOSE IN NEED, PROVIDE STRIKING EVIDENCE OF THE GROWING COMMITMENT OF MENTAL HEALTH AGENCIES AND A FEW HOUSING AGENCIES, TO BECOME INVOLVED. AS AN EXAMPLE OF THIS "EXPLOSION," WE COLLECT DATA, ON NEARLY 6000 COMMUNITY RESIDENTIAL PROGRAMS NATIONWIDE SPECIFICALLY DEVELOPED TO SERVE THIS POPULATION.

THIS DECADE OF EXPERIENCE HAS PROVIDED VALUABLE LEARNINGS TO THE FIELD ABOUT THE FUTURE DIRECTIONS WE SHOULD BE PURSUING. I WANT TO SUMMARIZE THOSE DIRECTIONS, AND THEN CLOSE WITH SOME RECOMMENDATIONS FOR A MORE EFFECTIVE FEDERAL ROLE.

WHAT HAVE WE LEARNED?

(1) WE HAVE LEARNED THAT THE HOUSING NEEDS OF PEOPLE WITH LONG TERM MENTAL ILLNESS ARE NO DIFFERENT THAN THOSE OF ANY OTHER GROUP. WHAT IS DIFFERENT, IS THE NEED FOR SPECIFIC SUPPORTS, SUCH AS CASE MANAGEMENT, REHABILITATION, CRISIS SUPPORTS, MENTAL HEALTH TREATMENT, AND, INCREASINGLY, SELF-HELP AND MUTUAL SUPPORT. AND FOR MANY INDIVIDUALS, THESE SUPPORTS ARE NEEDED REGARDLESS OF WHETHER THEY LIVE WITH THEIR FAMILY, IN THEIR OWN APARTMENT OR ELSEWHERE.

(2) WE HAVE LEARNED THAT THE OVERWHELMING MAJORITY OF CONSUMERS WANT TO LIVE IN THEIR OWN HOUSING, WITH SERVICES AND SUPPORTS PROVIDED ONLY WHEN THEY WANT AND NEED THEM. IN OTHER WORDS, THEY DO NOT WANT TO LIVE IN PROGRAMS OR FACILITIES, BUT IN HOMES, JUST LIKE THE REST OF US. AND THE GREAT MAJORITY DO NOT WANT TO LIVE WITH GROUPS OF OTHER EX-PATIENTS. A GROWING NUMBER OF CONSUMERS ARE BECOMING INTERESTED IN OWNING THEIR OWN HOMES, PARTICULARLY IF WE HELP WITH THE FINANCIAL ARRANGEMENTS, AND IF WE PROVIDE ONGOING SUPPORT. AND WE'VE LEARNED THAT IF WE DON'T MAKE CONSUMERS CHOICES THE BASIS ON WHICH WE PLAN OUR SERVICES, CONSUMERS WILL "VOTE WITH THEIR FEET" AND EITHER LEAVE OUR SERVICE SYSTEMS, OR RETURN TO HOSPITALS.

(3) WE HAVE LEARNED THAT IN COMMUNITIES WITH HIGH QUALITY SERVICES, PEOPLE CAN BE SUPPORTED IN REGULAR HOUSING WITH THE SAME INTENSITY OF HELP THAT WE USED TO THINK WAS THE SPECIAL PROVINCE OF A HALFWAY HOUSE OR, IN SOME CASES, EVEN A HOSPITAL. MENTAL ILLNESS, AS MANY OF YOU KNOW, OFTEN INVOLVES CYCLES OF DOING QUITE WELL, AND THEN NOT AT ALL WELL. ONLY TWO DECADES AGO WE USED TO THINK THAT PEOPLE NEEDED TO BE IN MENTAL HOSPITALS ALL OF THE TIME. NOW WE KNOW THAT PSYCHIATRIC CRISES ARE GENERALLY BRIEF, CAN BE MANAGED WELL IN MOST COMMUNITY HOSPITALS IN UNDER 7 DAYS, AND THAT THE KEY ISSUE FOR CONSUMERS THE OTHER 360 OR SO DAYS OF THEIR YEAR IS FLEXIBLE SUPPORTS AND SERVICES AVAILABLE ON A LONG TERM BASIS.

(4) WE'VE LEARNED THAT THE CONCEPT OF "TRANSITIONAL SERVICES" IS VERY PROBLEMATIC. PEOPLE WITH SEVERE AND PERSISTENT MENTAL ILLNESS HAVE A GREAT DEAL OF INVOLUNTARY TRANSIENCE IN THEIR LIVES ALREADY, AND DON'T NEED PROGRAMS WITH TIME LIMITED STAYS TO HAVE THEM BE EVEN MORE DISLOCATED. INSTEAD THEY NEED PERMANENT HOUSING AND SUPPORTS. I RECENTLY WAS ON A PANEL WITH THE HUD OFFICIAL OVERSEEING THE MCKINNEY ACT FUNDING FOR TRANSITIONAL HOUSING. SHE WAS COMPLAINING OF THE SMALL NUMBERS AND LOW QUALITY OF APPLICATIONS. SEVERAL STATE MENTAL HEALTH DIRECTORS RESPONDED THAT SUCH "TRANSITIONAL PROGRAMS" WERE JUST ANOTHER WAY OF AVOIDING LONG TERM HOUSING NEEDS, AND THAT STATES HAD LESS AND LESS INTEREST IN THEM. THEY URGED THAT THESE TRANSITIONAL FUNDS BE SHIFTED INTO THE PERMANENT HOUSING ALLOCATION. SIMILARLY, IN OUR NATIONAL SURVEY, WE SEE LOCAL PROGRAMS ACROSS THE COUNTRY BEGINNING TO MAKE THE SHIFT TO PERMANENT, RATHER THAN TRANSITIONAL HOUSING, AND TO THE USE OF APARTMENTS, RATHER THAN SEGREGATED GROUP HOMES, AND FINALLY, TO APPROACHES IN WHICH PEOPLE WITH MENTAL ILLNESS LIVE IN AN INTEGRATED WAY WITH OTHER PEOPLE OF LOW AND MODERATE INCOME WHO DO NOT HAVE DISABILITIES. THESE ARE THE DIRECTIONS I WOULD STRONGLY URGE HUD AND YOUR COMMITTEE TO PURSUE IN THE FUTURE. THEY REPRESENT THE WAY THAT CONSUMERS AND THEIR FAMILIES WANT TO LIVE, AND THEY DESERVE OUR SUPPORT.

THESE LEARNINGS, AND THE DIRECTIONS WE'RE PROCEEDING IN AS A FIELD, ARE REFERRED TO AS A "SUPPORTED HOUSING" APPROACH. THEY ARE, OF COURSE, REALLY NOTHING NEW IN A WAY, SINCE MOST CONSUMERS ALREADY LIVE OUTSIDE OF SEGREGATED FACILITIES - THE PROBLEM IS THAT THE HOUSING THEY DO LIVE IN IS TYPICALLY INADEQUATE AND THEY DON'T GET THE SUPPORTS THEY NEED THERE. IT IS ALSO NOT A NEW CONCEPT TO THE FIELD OF PHYSICAL DISABILITIES AND TO THE INDEPENDENT LIVING MOVEMENT. IT HAS TAKEN MENTAL HEALTH A BIT LONGER TO GET THERE, BUT I AM HERE TODAY TO TELL YOU THAT THERE HAS NEVER, IN MY EXPERIENCE, BEEN A GREATER READINESS ON THE PART OF THE MENTAL HEALTH FIELD AT ALL LEVELS TO UNDERTAKE MEANINGFUL PARTNERSHIPS WITH THE HOUSING FIELD. STATE AND LOCAL OFFICIALS AND A POWERFUL NEW ADVOCACY MOVEMENT OF CONSUMERS AND THEIR

FAMILIES ARE MAKING HOUSING AND SUPPORT A VERY HIGH PRIORITY IN MENTAL HEALTH. RECENTLY, GROUPS AS DIVERSE AS THE NATIONAL INSTITUTE OF MENTAL HEALTH AND THE STATE MENTAL HEALTH COMMISSIONERS ORGANIZATION ENDORSED THE "SUPPORTED HOUSING" APPROACH.

LET ME BRIEFLY DESCRIBE SOME EXAMPLES OF THE EXPLOSION OF INTEREST AND CREATIVITY AT BOTH THE STATE AND LOCAL LEVELS, THAT I SEE AS I TRAVEL THROUGHOUT THE COUNTRY. STATES SUCH AS OHIO, COLORADO, CONNECTICUT, RHODE ISLAND, VERMONT AND OTHERS ARE RETHINKING THEIR APPROACH TO HOUSING, AND STUDYING THE PROBLEM MORE CAREFULLY. A RECENT TASK FORCE REPORT IN OHIO, FOR EXAMPLE DID A COMPREHENSIVE STUDY OF THE HOUSING NEEDS OF PEOPLE WITH SEVERE AND PERSISTENT MENTAL ILLNESS, AND CONCLUDED THAT THE MAJOR BARRIER FOR CONSUMERS WAS THE LACK OF INCOME SUPPORT WHICH WOULD ALLOW THEM TO ACCESS DECENT HOUSING. STATES ARE DEVELOPING MORE RELEVANT FINANCING STRATEGIES, USING BOTH CAPITAL RESOURCES AND INCOME SUPPORTS. THEY ARE WORKING WITH THE PRIVATE SECTOR, WITH FOUNDATIONS, WITH NEIGHBORHOOD DEVELOPMENT GROUPS AND WITH HOUSING AGENCIES AT ALL LEVELS. THEY ARE EXPERIMENTING WITH DEVELOPMENT PARTNERSHIPS WHICH PRODUCE INTEGRATED AFFORDABLE HOUSING FOR PEOPLE WITH AND WITHOUT DISABILITIES. AND THEY ARE CHANGING THE NATURE OF THE SERVICES THEY PROVIDE IN COMMUNITIES, OFTEN WITH THE HELP OF FEDERAL PROGRAMS SUCH AS MEDICAID. IN SO DOING, THEY ARE PRIORITIZING THOSE SERVICES CONSUMERS NEED TO BE SUCCESSFUL REGARDLESS OF WHERE THEY LIVE, SUCH AS CASE MANAGEMENT, REHABILITATION AND CRISIS SERVICES. FINALLY, THEY ARE GROWING IN EXPERTISE RELATED TO HOUSING, PARTICULARLY AT THE STATE LEVEL, OFFERING TECHNICAL HELP TO LOCAL AGENCIES, AND THUS STIMULATING NEW RELATIONSHIPS WITH BOTH THE PUBLIC AND THE PRIVATE SIDE OF THE HOUSING INDUSTRY.

WHILE THIS IS VERY EXCITING, THE REALITY IS THAT ON A DAY TO DAY BASIS THEIR CREATIVE EFFORTS ARE GREATLY IMPEDED BY THE LACK OF FEDERAL HOUSING RESOURCES, AND THEY SEE MAJOR PROBLEMS WITH THE FEW HUD PROGRAMS THAT ARE STILL IN EXISTENCE. OFTEN PROJECTS HAVE TO PIECE TOGETHER MANY MORE SOURCES OF FUNDING THAN THEY SHOULD HAVE TO. RIGHT NOW THEY DO IT BECAUSE IT'S THEIR ONLY CHOICE, BUT WE COULD MAKE IT A LOT EASIER FOR THEM.

TOWARD A NEW FUTURE FEDERAL FUNDING APPROACH

TO DATE, THE FEDERAL PRESENCE IN STATE AND LOCAL HOUSING ACTIVITIES IN THE MENTAL HEALTH AREA HAS BEEN ALMOST NEGLIGIBLE.

I'D LIKE TO CONCLUDE BY CHARTING SEVERAL DIRECTIONS I THINK THAT THE FEDERAL GOVERNMENT MUST TAKE ON A LONG TERM BASIS TO MAKE A REAL DIFFERENCE IN THE ABILITY OF PEOPLE WITH PSYCHIATRIC DISABILITIES TO HAVE DECENT HOUSING AND DECENT LIVES IN OUR COMMUNITIES.

FIRST. ANY NEW LEGISLATION SHOULD TAKE A CLEAR POSITION ON WHAT IT IS THE FEDERAL GOVERNMENT IS TRYING TO ACCOMPLISH. IF HUD'S MISSION IS TO SUPPORT PEOPLE WITH SPECIAL NEEDS, INCLUDING THOSE WITH SEVERE AND PERSISTENT MENTAL ILLNESS, IN DECENT PERMANENT HOUSING, IN PLACES THEY WANT TO LIVE, THEN, JUST AS STATES AND LOCAL SYSTEMS ARE NOW DOING WITH REGARD TO SERVICES, HUD WILL NEED TO BEGIN DEVELOPING A VERY DIFFERENT FINANCING APPROACH, AN APPROACH WHICH EXPANDS HOUSING OPTIONS. HUD WILL ALSO NEED TO WORK WITH STATE MENTAL HEALTH AGENCIES, THE MAJOR PROVIDER OF SUPPORT SERVICES. IT IS AT THE STATE AND LOCAL LEVEL THAT HOUSING AND SUPPORTS ARE COMBINED, NOT AT THE FEDERAL LEVEL. IF HUD'S MISSION IS TO HELP PEOPLE BECOME TRULY INTEGRATED, IT WILL ALSO NEED TO BE MUCH MORE FLEXIBLE ABOUT COMBINING ITS RESOURCES WITH FUNDS, PARTICULARLY AT THE STATE LEVEL, WHICH ARE ALLOCATED TO PEOPLE OF LOW AND MODERATE INCOMES, AND TO PEOPLE WITHOUT DISABILITIES.

SECOND. THE SIGNIFICANT PROBLEMS IN THE SECTION 202 PROGRAM NEED TO BE ADDRESSED. THE MENTAL HEALTH FIELD HAS VIGOROUSLY PURSUED SECTION 202 RESOURCES, BUT THE PROGRAM HAS BEEN TOO EXPENSIVE (UNITS DEVELOPED OFTEN COST 3 TIMES WHAT COMPARABLE STATE UNITS COST), SLOW (THE TIME FROM PROPOSAL TO RENT-UP IS OFTEN 3 YEARS), AND HIGHLY BUREAUCRATIC (WITH FEDERAL STAFF HAVING TO APPROVE EACH STEP OF THE DEVELOPMENT PROCESS). BY GRANTING FUNDS DIRECTLY TO LOCAL AGENCIES, THESE PROJECTS OFTEN BYPASS THE PUBLIC MENTAL HEALTH SYSTEM, WHICH MAY JEOPARDIZE THE STATE'S LONG TERM SUPPORT FOR SERVICES FUNDING. THE NUMBERS THEY SERVE, FOR THE AMOUNT OF EFFORT REQUIRED, IS VERY SMALL. FINALLY, THE SECTION 202 PROGRAM EMPHASIZES NEW CONSTRUCTION OF FACILITIES IN WHICH PEOPLE LIVE IN A SEGREGATED MANNER, WHILE THE FIELD IS INCREASINGLY EMPHASIZING THE USE OF REGULAR EXISTING HOUSING, INTEGRATION AND MIXED-USE. STATE AND LOCAL PROJECTS ARE GEARED TO SERVING HIGHER NUMBERS OVERALL, TO A QUICKER DEVELOPMENT PROCESS, AND TO A CLOSE RELATIONSHIP WITH THE MENTAL HEALTH SERVICE SYSTEM.

IN SUMMARY, THE SECTION 202 PROGRAM REPRESENTS A VERY SMALL AMOUNT OF MONEY AS CONTRASTED WITH THE NEED, AND IS SIMPLY NOT COMPATIBLE WITH THE MAJOR DIRECTIONS IN WHICH OUR FIELD IS MOVING. RECENT PROPOSALS WHICH HAVE SURFACED TO "BLOCK GRANT" THE SECTION 202 PROGRAM TO STATES ARE SIMPLY ANOTHER INDICATION THAT WE NEED TO ADDRESS THE SHORTCOMINGS OF THIS PROGRAM.

I SHOULD EMPHASIZE THAT, WHATEVER CHANGES ARE MADE IN SPECIFIC PROGRAMS, FEDERAL HOUSING POLICY MUST BE ORIENTED TOWARD INTEGRATED LIVING IN NORMAL HOUSING ENVIRONMENTS.

THIRD. HUD HAS A CRITICAL ROLE TO PLAY IN EXPANDING CONSUMERS' INCOME SO THEY CAN ACCESS DECENT HOUSING. THE SECOND HUD PROGRAM WHICH HAS BEEN WIDELY USED IS THE SECTION 8 PROGRAM. THIS IS SEEN AS A HIGHLY VALUABLE PROGRAM WITHIN THE MENTAL HEALTH FIELD. ALTHOUGH IT COULD BE IMPROVED, THE BASIC REALITY IS THAT IT ISN'T

Senator D'AMATO. Thank you very much.

Mr. Perkins.

Mr. Perkins is the director, Commission on Housing, Archdiocese of New Orleans.

STATEMENT OF THOMAS PERKINS, DIRECTOR, COMMISSION ON HOUSING, ARCHDIOCESE OF NEW ORLEANS, AMERICAN ASSOCIATION OF HOMES FOR THE AGING [AAHA]

Mr. PERKINS. Good morning.

My name is Thomas Perkins. I am the executive director of the Commission on Housing for the Archdiocese of New Orleans. I am pleased to be here today representing the American Association of Homes for the Aging, where I serve as chairman of the Housing and Assisted Living Committee.

AAHA is a national nonprofit association representing over 3,200 nonprofit facilities, providing housing, health care, community services, to more than a ½ million older Americans daily. Seventy-five percent of AAHA homes are affiliated with religious organizations

On behalf of the associations, we would like to commend you, Senators Cranston and D'Amato, for your leadership in focusing national attention on the need to reform Federal housing policies. The 80 percent reduction in Federal housing funds over the past decade has been an outrageous abdication of over half a century of commitment to decent and affordable housing in this Nation.

AAHA appreciates the opportunity to participate in this effort to reach a national consensus on needed Federal housing reform. AAHA has submitted its initial recommendations for reform in October. I would like to submit as part of today's hearing AAHA's more extensive recommendations and ask that they be made a part of the record.

This morning, I would like to take the opportunity to share some of AAHA's views on the report by the National Housing Task Force. We commend the cochairmen, James Rouse and David Maxwell, as well as the other members of the National Housing Task Force for their excellent job in putting forth a comprehensive, balanced set of recommendations. AAHA believes that the enactment of the 10-point program outlined in the report represents a first step in reestablishing the Federal Government's role, resources, and responsibility, and facilitating suitable and affordable housing for all Americans.

AMERICANS SUPPORT DEVELOPMENT OF HOUSING PROGRAMS

When considering the significant demographic impact of increases in the elderly population over the next 50 years, AAHA believes that the task force recommendations are too modest. A report released by the National Housing Institute clearly shows that Americans overwhelmingly support the need to develop effective housing programs. According to the findings, a clear majority of Americans are prepared to pay higher taxes, between $12 and $17 billion to be specific, in new Federal programs.

Furthermore, the study reveals that the American public perceives long-term care for the elderly to be the most important priority for the next taxes of revenues to be produced.

We believe that the most significant recommendation by the task force is the Housing Opportunity Program (HOP). AAHA supports the $3.0 billion block grant as additional resources for States, local government, and communities. We believe that the HOP program will not only leverage State and local matching funds, but increase local flexibility with a minimum of Federal regulations, and be a valuable tool in addressing a wide range of priorities, including special needs for the elderly.

We are pleased that the task force report recognizes the merit of nonprofit developers in addressing these housing needs.

For nonprofit sponsors, the bottom line is quality of care for the residents.

Special housing needs of the elderly and the success of the section 202 program in particular in addressing those needs. Despite its cost-effectiveness, however, funding for the program has dwindled almost 50 percent since the late 1970's. In addition, in recent years, cost containment and other Federal constraints have served to minimize some of the effectiveness of this program.

We would recommend that the section 202 program be funded at a minimum of 20,000 units annually, with increased flexibility regarding project design and management. We would also recommend that an option be developed with the section 202 program to provide long-term loans to nonprofit sponsors, who would be forgiven over the term of the loan based on the level of low income residents served by the facility.

Another concern AAHA has regarding elderly housing which is not adequately, in our opinion, addressed in the task force report, is the need for support services. Older residents in federally assisted housing, including section 202 public housing and other programs, are the fact of aging in place. AAHA recommends that more effective linkages be developed between support services and housing.

One of the most successful models for developing linkages between Federal housing programs needed to support services is the Congregate Housing Services Program. At the present time, there are some 61 CHSP projects sponsored by either housing authorities, section 202 sponsors, serving some 200,000 residents. We recommend that the CHSP and other support housing programs be significantly expanded.

AAHA supports the task force's recommendations for preserving existing stock of low income housing. Of the more than 300,000 HUD-assisted housing units that will be eligible for mortgage prepayment in the next years, only a third of these at-risk units are occupied by the elderly. AAHA supports the Task Force's recommendation to renew projects based on tenant-based contracts.

We also recommend future housing programs for the elderly to create an expanded role for nonprofit sponsors because of their demonstrated long-term commitment to providing low and moderate income housing for older tenants.

AAHA supports the Task Force's recommendations regarding the use of tax policies to assist low income housing, including expansion of tax exempt financing. We support the need for rehabilitation and modernization of federally assisted housing. In addition to the proposed modernization program for public housing, AAHA would recommend that funds be available for adapting and retrofitting existing elderly housing to facilitate support services.

One final thought. We would encourage the development of adaptive reuse for elderly housing. Many communities are experiencing vacant buildings such as schools, factories, hotels, and others. With adequate public incentives, these structures could be adapted to provide attractive, affordable housing options. This type of housing approach is mutually beneficial not only in providing a safe and decent environment for older persons, but also in helping to revitalize neighborhoods.

In conclusion, Mr. Chairman, AAHA would like to point out that while the Task Force recommendations are commendable and suggest a number of new programs that augment existing efforts, we believe that these recommendations are modest. AAHA members believe that the American public is beginning to recognize the magnitude of this national problem and the need for the Federal Government to commit its resources to meet the housing needs of Americans of all ages.

AAHA looks forward to working with you and the committee on a workable solution in the future.

Thank you.

[The complete prepared statement of Mr. Perkins follows:]

REALLY AVAILABLE. THREE TO FIVE YEAR WAITING LISTS ARE COMMON. PEOPLE WITH MENTAL ILLNESS COMPETE POORLY WITH OTHER GROUPS, AND ARE OFTEN DISCRIMINATED AGAINST ON THE LIST ITSELF. WHILE SOME STATE AND LOCAL GROUPS HAVE USED SECTION 8 VERY CREATIVELY, MOST GROUPS HANDS ARE TIED BECAUSE THERE ARE NEITHER CERTIFICATES NOR VOUCHERS AVAILABLE IN MOST OF THE PLACES WE LIVE. AND WITHOUT SECTION 8, THERE ARE FEW IF ANY INCENTIVES FOR PUBLIC HOUSING AUTHORITIES AND MENTAL HEALTH AGENCIES TO WORK TOGETHER.

MENTAL HEALTH CONSUMERS COULD BENEFIT GREATLY FROM A SIGNIFICANTLY EXPANDED SECTION 8 PROGRAM, PARTICULARLY THE VOUCHER PROGRAM. THIS BASIC INCOME SUPPLEMENT WOULD MAKE THE ABSOLUTE DIFFERENCE IN ACCESSING DECENT HOUSING FOR HUNDREDS OF THOUSAND OF CONSUMERS. GIVEN NATIONAL RENTAL COST TRENDS, HOWEVER, HUD SHOULD INTRODUCE A HIGHER LEVEL OF FLEXIBILITY IN THE KINDS OF HOUSING THAT CERTIFICATES AND VOUCHERS CAN BE USED IN. FURTHER, HUD SHOULD NOT PRESCRIBE A PARTICULAR KIND OF "MODEL" THAT FUNDS SHOULD BE USED IN (FOR EXAMPLE THE GROUP HOME OR INDEPENDENT LIVING COMPLEXES OF THE SECTION 202 PROGRAM). SERVICE APPROACHES ARE CHANGING TOO FAST FOR CASTING THEM IN CONCRETE. HUD SHOULD INSIST ON THE USE OF NORMAL HOUSING AND ON INTEGRATION, BUT IT'S KEY ROLE SHOULD BE TO GIVE PEOPLE A LEG UP ECONOMICALLY SO THAT THEY CAN LIVE IN A DECENT PLACE.

WITHIN THE SECTION 8 PROGRAM, HUD COULD CREATE INCENTIVES FOR MUCH BROADER COLLABORATION BETWEEN PUBLIC HOUSING AUTHORITIES AND LOCAL MENTAL HEALTH SERVICE AGENCIES, PARTNERSHIPS WHICH COULD EASE SOME OF THE MOST PERVASIVE CONCERNS PUBLIC HOUSING MANAGERS HAVE, BY EXPANDING RELEVANT SERVICES TO ALL PUBLIC HOUSING TENANTS, AND, AT THE SAME TIME, EXPAND DECENT HOUSING FOR MENTAL HEALTH CONSUMERS. THIS IS ALREADY HAPPENING IN SMALL WAYS IN MANY STATES; IT COULD BE GREATLY EXPANDED THROUGH LEGISLATION.

HUD COULD ALSO CREATE A MORTGAGE ASSISTANCE PROGRAM WHICH WOULD PROVIDE INDIVIDUALS WITH DISABILITIES WITH DIRECT BENEFITS IN ORDER TO MAKE HOME OWNERSHIP POSSIBLE.

FOURTH, SINCE THE LACK OF AFFORDABLE HOUSING AND THE RENT-TO-INCOME RATIO HAVE BOTH REACHED CRISIS PROPORTIONS NATIONALLY, HUD ALSO HAS A CRITICAL ROLE TO PLAY IN STIMULATING THE DEVELOPMENT OF AFFORDABLE HOUSING. FEDERAL FUNDS SHOULD BE USED IN A PARTNERSHIP WITH STATE MATCHING FUNDS WHICH CAN THEN LEVERAGE OTHER LOCAL AND PRIVATE RESOURCES. MORE AND MORE STATES, FOR EXAMPLE, ARE CONSIDERING DEVELOPMENT APPROACHES IN WHICH CAPITAL FUNDS ARE USED TO "BUY DOWN" MORTGAGES SO THAT PEOPLE WITH SPECIAL NEEDS CAN OWN THEIR OWN HOUSING, WITH A BUILT IN SUBSIDY THAT PROTECTS AGAINST THE INSECURITIES OF FUTURE FEDERAL FUNDING, SUCH AS WE'VE SEEN WITH CUTS IN THE SECTION 8 PROGRAM. HUD FUNDS WOULD BE A VALUABLE ADDITION HERE, PARTICULARLY IN STATES WHICH DO NOT HAVE READY ACCESS TO CAPITAL DOLLARS.

FINALLY, THIS COMMITTEE COULD CONSIDER A MECHANISM IN WHICH A VARIETY OF HUD DEVELOPMENT-ORIENTED PROGRAMS, SUCH AS SECTION 202 AND THE SECTION 8 REHABILITATION PROGRAMS COULD BE COMBINED WITH STATE FUNDS TO CREATE HOUSING DEVELOPMENT TRUST FUNDS AT THE STATE LEVEL. A NUMBER OF STATES, SUCH AS PENNSYLVANIA, ARE MOVING IN THIS DIRECTION AND COULD BE GREATLY ASSISTED WITH SUCH FLEXIBLE FEDERAL FUNDS AND THE AVAILABILITY OF SUBSIDIES.

FIFTH, THE USE OF TAX CREDITS COULD BE SIGNIFICANTLY EXPANDED FOR PEOPLE WITH SPECIAL NEEDS BY CREATING INCENTIVES AT THE FEDERAL LEVEL. TAX CREDITS FOR SMALL SCALE PROJECTS, FOR THOSE WHICH INTEGRATE PEOPLE WITH THOSE WHO ARE NEITHER DISABLED NOR LOW INCOME, THE USE OF TAX CREDITS TO PREVENT CURRENTLY SUBSIDIZED PROGRAMS FROM PHASING OUT OF EXISTENCE, AND THE USE OF TAX CREDITS TO STIMULATE THE DEVELOPMENT OF CONSUMER OWNED HOUSING ARE ALL PRACTICAL POSSIBILITIES IN SUCH A PROGRAM.

IN CLOSING, MENTAL HEALTH AUTHORITIES AND ADVOCACY GROUPS ARE POISED ON THE BRINK OF FINALLY DEVELOPING MUCH MORE EFFECTIVE SYSTEMS OF SUPPORTS IN OUR LOCAL COMMUNITIES FOR PEOPLE WHO, UNTIL NOW, HAD ONLY THE OPTIONS OF HOSPITALS OR HOMELESSNESS. THE MISSING LINK IS THEIR OWN HOUSING. THIS COMMITTEE HAS A UNIQUE OPPORTUNITY TO BEGIN RE-ORIENTING FEDERAL HOUSING PROGRAMS TO THESE NEW REALITIES IN MENTAL HEALTH, AND TO MEETING THE NEEDS OF CONSUMERS IN WAYS THAT THEY WOULD LIKE TO HAVE THEM MET.
I WOULD BE HAPPY TO RESPOND TO ANY QUESTIONS.

A H A

Statement by

Thomas Perkins

on behalf of

American Association of Homes for the Aging

on

Report of the National Housing Task Force

before the

Subcommittee on Housing and Urban Affairs

Committee on Banking, Housing and Urban Affairs

United States Senate

April 14, 1988

TESTIMONY OF THOMAS PERKINS
REPRESENTING THE
AMERICAN ASSOCIATION OF HOMES FOR THE AGING

Good morning. My name is Thomas Perkins. I am the Executive Director of the Commission on Housing of the Archdiocese of New Orleans. I am pleased to be here today representing the American Association of Homes for the Aging (AAHA) where I serve as the Chairman of the Housing and Assisted Living Committee.

AAHA is a national nonprofit association representing over 3,200 nonprofit facilities providing housing, health care and community services to more than a half million older persons daily. Seventy-five percent of AAHA homes are affiliated with religious organizataions, while the remaining are sponsored by private foundations, fraternal organizations, government agencies, unions, and community groups.

On behalf of the association, we would like to commend you, Senators Cranston and D'Amato, for your leadership in focusing national attention on the need to reform federal housing policies. The 80% percent reduction in federal housing funds over the past decade is an outrageous abdication of over a half century commitment to decent and affordable housing in this nation. The growing numbers of homeless on the streets of New Orleans and in other communities across this country are very tangible evidence of much needed reform.

AAHA appreciates the opportunity to participate in this effort to recommend new policies in an attempt to reach a national consensus on needed federal housing reform. At the request of the Committee, AAHA submitted its initial recommendations for reform in October 5, 1987. AAHA's recommendations included the need for: supportive housing, new funding options, public-private partnerships and more effective management systems. I would like to submit as part of today's hearings, AAHA's more extensive recommendations; and ask that they be made part of the record.

This morning I would like to take the opportunity to share some of AAHA's views on the report, " A Decent Place to Live," submitted to the Committee a couple weeks ago by the National Housing Task Force.

Elderly Housing Needs

AAHA's comments will focus on the special housing needs of the elderly. While the task force report includes reference to the special housing needs of the elderly, the report tends to focus more heavily on other population groups. Yet, one of the most significant demographic facts affecting the development of future policies is the rapid growth of our aging population. A few relevant characteristics of the elderly clearly reinforce this perspective.

- Currently there are about thirty million persons age 65 and older. During the last two decades the older population grew more than twice as fast as the rest of the population. Each day 5,000 persons reach the age of 65, resulting in a net increase of over a half million more older persons each year.
- Within the elderly population, the numbers of those aged 85 and over who tend to be more frail and require increased support services is growing at an even faster rate.
- Older persons have substantially less cash income than the

general population. In 1986 the median income of a family head aged 65 or older was less than two-thirds the income of a family head aged 25 to 64. In 1986 12.4% of persons 65 and older had incomes below the poverty level compared to 10.8% of those aged 16 to 64.

- Nearly three-fourths of the elderly poor are women; most live alone.
- While older persons are more likely to be home-owners than renters, the elderly increasingly tend to rent rather than own as they grow older.
- Of those who own their home, 36% of these homes were built before 1940 and many are no longer suitable because of structural, financial and changing shelter needs.
- Nearly half of all public housing residents are elderly, as well as half of all in Section 8 new construction residents.
- Many older residents have lived in these federally assisted facilities for many years, and as they "age in place" have an increased need for support services.
- Estimates are that about a fourth of elderly persons in federally assisted housing require some assistance for daily living to remain in an independent living environment.

AAHA supports a comprehensive federal housing policy which addresses the diverse housing needs of all ages and income groups. We commend Co-chairmen James Rouse and David Maxwell, as well as the other members of the National Housing Task Force, for their excellent job in putting forth a comprehensive and balanced set of recommendations. AAHA believes that the enactment of the ten-point program outlined in the report represents a first-step in re-establishing the federal government's role, resources, and responsibility in facilitating suitable and affordable housing for all Americans.

When considering the significant demographic impact of the increases in the elderly population over the next fifty years, AAHA believes that the task force recommendations are too modest. We believe that there is a greater need and enormous public support for major housing initiatives, particularly as they relate to addressing the needs of frail elderly and long term care. A report released last week by the National Housing Institute, A Status Report on the American Dream, clearly shows that Americans overwhelmingly support the need to develop effective housing programs to meet the needs of working and middle class Americans.

According to the findings, a clear majority of Americans are prepared to pay higher taxes to support specific new federal programs. The survey indicates substantial support for an additional $12 to $17 billion in taxes for new federal housing initiatives. By a ratio of two to one, the report indicated that Americans would be willing to pay an additional $120 a year in taxes to support a package of programs assisting the homeless, the poor, the frail elderly, and middle class Americans. Futhermore, the study reveals that the American public perceive long-term care for the elderly to be the most important priority for new tax revenues. AAHA would strongly recommend that reform of federal housing policies be considered in conjunction with the reform of federal long-term care policies.

Housing Opportunity Program (HOP)

I would like to briefly comment on a few of the specific recommendations of the task force. While each recommendation is important, and clearly needs to be viewed as part of a multifaceted effort, we believe that the most significant recommendation by the task force is the Housing Opportunity Program (HOP). AAHA strongly

supports this $3 billion block grant as an additional resource for states, local governments and communities. We believe that the HOP program will not only leverage state and local matching funds, but with increased local flexibility and a minimum of federal regulations will be a valuable new resource in addressing a wide range of local priorities, including special needs for the elderly.

We are pleased that the task force report recognizes the merits of nonprofit developers in addressing housing needs. Nonprofit sponsors have clearly demonstrated through the years a commitment and capacity for developing and operating quality housing for residents. With strong community involvement and longstanding community ties, AAHA's nonprofit members are committed to meeting the physical, social, psychological, emotional, and spiritual needs of their residents in a manner which enhances the residents' sense of self-worth and dignity and allows them to function at their highest level of independence.

For nonprofit sponsors the bottom line is the quality of care for residents. AAHA strongly supports the task force's recognition of the need for public and private partnerships and in providing tax and other incentives to foster collaborative efforts in addressing housing needs. However, based upon the need to stimulate these partnerships and to increase the involvement of nonprofit organizations, AAHA would recommend that the set aside of HOP funds for nonprofit organizations be increased to 25 percent.

Maintain Section 202

AAHA is pleased that the task force report recognizes the

Senator D'AMATO. Mr. Perkins, thank you very much.

Now Mr. Capozzi, National Advocacy Director, Paralyzed Veterans of America.

Mr. Capozzi.

STATEMENT OF DAVID CAPOZZI, NATIONAL ADVOCACY DIRECTOR, PARALYZED VETERANS OF AMERICA

Mr. CAPOZZI. Thank you, Senator D'Amato.

I am testifying today on behalf of our over 14,000 members of the Paralyzed Veterans of America. I want to thank you for conducting this hearing on the need for a new national housing policy.

I believe that in order to fully meet the needs of American citizens, any housing policy must be comprehensive to include the needs of people with disabilities. Such a policy must assure that two critical components are included: Affordability and accessibility.

HANDICAPPED PERSONS

I will limit my discussion today to the special needs of handicapped persons, specifically those people who use wheel chairs for mobility.

Forty years ago when our organization was founded, PVA members came home from VA hospitals from the Second World War and were faced with assumptions which limited their abilities and opportunities. For example, public officials charged with making policy decisions as to where accessible housing would be provided, if at all, premised their decisions on the attitude that people with disabilities needs were so different that they mandated different and separate treatment, and thus began a period of what I call "benign neglect."

Benign neglect, unlike overt acts of discrimination, stems from a misplaced kindness toward individuals with disabilities. But this attitude leaves the real need of people with disabilities unattended to and often leads to well-meaning but counterproductive Government policies.

An example of that is the development of segregated housing for people with disabilities. Another example—Senator, you know this as well as Senator Cranston would also—is the development of transportation policies. Transportation has developed in a segregated system. New York and California and other States have addressed this by requiring that mainline systems be accessible. The goal there is not separate systems; it is integration of people.

This should be the same goal for housing. However, that is not how things have developed. Federally funded and assisted low income housing projects are required to have a percentage of accessible units of all new construction. This percentage can range from anywhere between 5 and 10 percent. However, given the small percentage of units, combined with uneven or little enforcement, the end result is that there are few accessible units and long waiting lists.

While able-bodied low income tenants can often move right into housing projects, waiting lists of several years are not uncommon for the few accessible units.

Handicapped individuals who must rely on the use of these few accessible units are especially hard hit when funding is cut for these projects. Funding by HUD has been cut over the last several years from over $33 billion to under $8 billion, a 75-percent reduction. In practical terms, this has resulted in a decrease in the number of federally assisted units from 200,000 to 25,000.

The consequences of the Federal Government's withdrawal of funding has caused a steady erosion in the quality of life in our communities, and people with disabilities are particularly affected due to their need for accessible and affordable housing.

Disabled Americans are much poorer than nondisabled Americans. A recent nationwide survey by Lou Harris and Associates indicated that approximately 27 million individuals between the ages of 16 and 64 who are not in institutions are disabled. Two-thirds of those are unemployed. And based on 1984 statistics, 50 percent of all disabled people have household incomes of $15,000 or less.

As a result, many disabled citizens are precluded from obtaining the American dream, owning one's own home. Therefore, handicapped persons are, for the most part, renters or potential renters, and represent a significant portion of the pool of persons eligible for federally subsidized housing.

As I mentioned earlier, what is needed is a national housing policy that ensures affordable and accessible housing to people with disabilities. A system of requiring a small number of special accessible units has not worked, just as special transportation systems for people with disabilities has not worked.

Because the percentage of new units which are required to be accessible is small, disabled people often have difficulty locating accessible units. Some builders and owners also have trouble renting accessible units to nondisabled individuals. And prospective tenants don't like the look of the institutional appearance of grab bars in bathrooms or lowered kitchen counters.

Some owners feel that they are losing money by providing units that appear that no one wants or no one needs. Some have began to lobby to have the mandatory percentage, a very small percentage, of fixed accessible units eliminated or drastically cut back.

What is needed for the 1990's and beyond is an approach which is flexible to meet the needs of people with disabilities, able-bodied persons, and the housing industry.

ADAPTABLE HOUSING

What I recommend is a concept called adaptable housing. Adaptable housing appears to be one solution to the problems that have existed over the years and holds the promise of a universal usable housing in the future at little or no extra cost.

Adaptable housing, plainly speaking, is accessible housing that doesn't look any different from other housing. It has features that in only minutes can be adjusted, added, or removed as needed, to suit the individual needs of the occupants.

Truly adaptable units can be adjusted or adapted without renovation or structural changes because the basic accessible features like wide doors, ground-level entrances, and usable space are already part of the unit. Nonstructural adaptations can be made without delaying occupancy by new tenants.

For the adaptable housing concept to succeed, however, it's vital that enough units be built to meet the demands of both the disabled and nondisabled community. The number needs to be much greater than the small number of fixed accessible special units that have been required in the past.

An increase in the number of adaptable units will benefit all people who need improved access, with no disadvantage to others.

With increased experience with the adaptable housing concept and growing participation of product manufacturers and better market information, the building industry may find that most houses can be made accessible at little or no increase in cost.

We already have the technical expertise to accomplish the adaptable design. New York and California have taken the lead and required that in their building codes you require adaptable design rather than a few accessible units. What we need is a positive statement from the Federal Government to take that one step further.

Thank you.

[The complete prepared statement of Mr. Capozzi follows:]

**PARALYZED VETERANS
OF AMERICA**
Chartered by the Congress
of the United States

Statement of

David M. Capozzi, National Advocacy Director

Paralyzed Veterans of America

on the

Need for a Comprehensive National Housing Policy

Before the

Subcommittee on Housing and Urban Affairs

of the

Committee on Banking, Housing, and Urban Affairs

United States Senate

April 14, 1988

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Mr. Chairman and Members of the Subcommittee, on behalf of the members of the Paralyzed Veterans of America (PVA), I would like to thank you for conducting this hearing on the need for a new National housing policy. I appreciate the opportunity to provide you with PVA's views on exactly where this nation needs to go in order to meet the housing needs of people with disabilities in the 1990's and beyond. I believe that in order to fully meet the needs of America's citizens, any housing policy must be comprehensive to include the needs of people with disabilities. Such a policy must assure that two critical components are included - affordability and accessibility. Since PVA is an organization comprised totally of catastrophically disabled veterans, I will limit my discussion to the special needs of handicapped persons, specifically people who use wheelchairs for mobility.

The Paralyzed Veterans of America is a congressionally chartered veterans' service organization comprised of more than 14,000 veteran members. All of our members have incurred a spinal cord injury or dysfunction either as a direct result of their service to our country or from an accident or disease subsequent to their military service. The majority of our membership must rely upon the use of a wheelchair for their personal mobility.

Since its founding in 1947, PVA has been actively involved in issues of accessibility at the local, state, and national levels of government. The reason for this stems from the fact that as veterans with spinal cord injury returned home from World War II, they found themselves confronted with a serious dilemma. With the advent of new antibiotics and improved medical procedures, these veterans found they could live longer and healthier than originally anticipated, but they also found a society unable or unknowing about accomodating their needs.

Mr. Robert Moss, one of PVA's founding members, succinctly describes the situation confronting spinal cord injured veterans in the late 1940's. "We were faced with a group of young men with a physical handicap that had virtually not been survivable prior to that time. . .there was no way of coping with society as society was then constituted. There were no programs for survival, there were no care programs, and there was certainly no such thing as the elimination of architectural barriers -- there was no legislation for it." These men were honored heroes, yet their goal of returning to society as productive members was blocked.

Forty years ago, we were faced with assumptions which limited the abilities and opportunities for individuals with disabilities. Public officials charged with making policy decisions as to where accessible housing would be provided, if at all, premised their decisions on the attitude that individuals with disabilities were so different that they mandated different and seperate treatment. Thus began a period of "benign neglect" coupled with sporadic, often unenlightened efforts and blatant discrimination.

Benign neglect, unlike overt acts of discrimination, stems from a misplaced kindness and gentleness toward individuals with disabilities. This attitude, however, leaves the real needs of people with disabilities unattended to. Benign neglect, by definition, does not recognize the vast potential which disabled people possess and often leads to well meaning but counter productive government policies. An example of such policy is the development of segregated housing for disabled persons. While segregated housing does provide affordable housing opportunities it also perpetuates the isolation of person with disabilities and frustrates their attempts at gaining independence and living in the mainstream of American life.

Mr. Chairman, as you are aware, federally funded and assisted low income housing projects are required by law to provide a percentage of accessible units of all new contruction to be made available for disabled persons. Many states and federal agencies have developed their own specifications for fixed accessible housing units. Many of these requirements mandate that a certain percentage of new, multi-family housing construction - usually between 5% and 10% comply. However, given this small percentage of housing units required to be accessible, combined with uneven or little enforcement of this requirement, the end result is few accessible housing units and long waiting lists for persons who have a real need for these units. While able-bodied, low income tenants can often move right into these housing projects, waiting lists of several years are not uncommon for the few accessible units. For example, in Memphis, Tennessee, our Mid-South PVA Chapter reports that of the 50 apartment complexes identified as being available for handicapped, elderly and low income families, over 5,000 eligible tenants are on waiting lists. Some are currently living in substandard conditions and inaccessible units.

To add to the accessible housing shortage, in approximately one-third of the states, landlords are free, if not funded by federal funds, to build new housing projects designed so that they are totally inaccessible to a prospective tenant with a disability. In addition, in nearly every state, landlord's and owners of real property are not prohibited by law from discriminating against handicapped persons who seek to rent or purchase property. Therfore, the only recourse available to these individuals is to retreat to the limited protection of housing provided be federally funded housing programs, and even these programs are being cut back drastically. Funding by the Department of Housing and Urban Development (HUD) has been cut over the last several years from over $33 billion to under $8 billion, a 75% reduction. In practical terms, this has resulted in a decrease in the number of federally assisted units from 200,000 to 25,000.

The consequences of the federal government's withdrawal of funding has caused a steady erosion in the quality of life of our communities. People with disabilities are particularly affected, due to their need for affordable, accessible housing. On a more positive note, it has forced state and local special housing needs of the elderly and the success of the Section 202 program in particular in addressing these needs. This program to nonprofit sponsors has facilitated the development of over 200,000 units of elderly housing since its enactment in 1959. Despite its cost effectiveness, however, funding for this program has dwindled almost fifty percent since the the late 1970s. In addition, in recent years, cost containment and other federal constraints have served to minimize some of the effectiveness of this program.

We would recommend that the Section 202 program be funded at a minimum of 20,000 units annually, with increased flexibility regarding project design and management. Additionally, new funding mechanisms need to be developed in the Section 202 program for making affordable housing available to low and moderate income older persons. Since 1974, Section 8 rent subsidies have been tied to newly constructed Section 202 projects. In recent years these subsidies have been targeted almost exclusively to the very low income; thus practically eliminating this housing option for low and moderate income elderly, those earning between 50 and 80 percent of median income.

We would recommend that an option be developed with the Section 202 program to provide long-term loan to nonprofit sponsors which would be forgiven over the term of the loan based upon the level of low income of residents served by the facility.

Supportive Housing

Another concern of AAHA regarding elderly housing which is not adequately addressed in the task force report is the need for support services. Older residents in federally assisted housing, including

Section 202, public housing and other program, are "aging in place." Based upon level of disability among residents of assisted housing, the American Association of Retired Persons estimates that 113,000 of the more than 750,000 elderly living in public and Section 202 housing are in need of support. While many of these support services may be available in the community, they may be difficult for housing residents to access due to administrative constraints and complexities. AAHA recommends that more effective linkages be developed between support services and housing.

Without appropriate support services, many frail residents have no other options than the more costly institutional setting. Though nursing homes provide an important service, most experts recognise that institution-based solutions to long-term problems are over-utilised because community-based alternatives are not available. The need to link housing and support services is not only more humane, but can be more cost effective.

One of the more successful models for developing linkages between federal housing programs and needed support services is the Congregate Housing Services Program (CHSP). At the present time there are 61 CHSP projects sponsored by either public housing authorities or Section 202 sponsors serving over 2,000 residents. A recent cost comparison study of CHSP by the University of Illinois, conservatively estimates a savings of about $5,000 per person per year in comparison to institutional care. We recommend that the CHSP and other supportive housing programs be significantly expanded.

To more effectively administer linkages with supportive services, we also encourage the establishment of an HUD Assistant

Secretary for Support Housing. In addition to the elderly, this office would administer programs for other special populations such as the handicapped and homeless.

Preserving low-income housing

AAHA is pleased that the task force includes recommendations to preserve the existing stock of low-income housing. Of the more than 300,000 HUD assisted housing units that will be eligible for mortgage prepayment in the next few years, over a third of these at-risk units are occupied by older persons. Of these, it is currently estimated that 75,000 units are likely to be prepaid. Unless action is taken these older residents will either be displaced or experience a significant increase in housing costs.

In addition, problems with the eminent expiration of rent subsidy contracts have been documented. AAHA supports the task force recommendations to renew project-based and tenant-based subsidies contracts.

In addition to tax and other incentives to maintain property for low-income residents, we support efforts to facilitate the acquisition of currently held assisted housing projects by nonprofit sponsors. AAHA would encourage the expansion of tax incentives and other resources to facilitate this acquisition. We also recommend that future housing programs for the elderly create an expanded role for nonprofit sponsors because of their demonstrated long-term commitment to providing low and moderate income housing for older tenants.

AAHA supports the task force's recommendations regarding the use of federal tax policies to assist low-income housing, including the

expansion of tax-exempt financing, changes in the low-income tax credit, and incentives to donate facilities to nonprofit organizations. In addition, we believe that federal tax policies that promote the use of such innovative financing mechanisms similar to those employed by as the National Retirement Housing Trust should be encouraged.

We support the need for rehabilitation and modernization of federally assisted housing. In addition to the proposed modernization program for public housing, AAHA would recommend that funds be available for adapting or retrofiting existing elderly housing to facilitate support services. Such programs would include funds for community space in or adjacent to the facility, for use by residents and/or communty agencies in providing support services. AAHA supports the use of "benevolent funds" and a housing trust fund, as recommended by the task force; as well as increased access to project reserves and residual funds to facilitate physical changes in the provision of support services.

One final thought regarding modernization and rehabilitation. We would encourage the development of adaptive reuse for elderly housing. Many communities are experiencing vacant buildings such as schools, factories, hotels and others. Utilizing incentives such as rent subsidies, and waivers in certain historic and other regulatory processes to readapt these structures, could provide an attractive and affordable housing option. This type of housing approach is mutually beneficial not only in providing a safe and decent environment for older persons but also in helping to revitalize neighborhoods. AAHA would recommend a wide range of federal funding to stimulate this type of development, including HOP funds, low interest loans, historic and other tax incentives.

In conclusion, Mr. Chairman, AAHA would like to point out that while the Task Force recommendations are commendable and suggest a number of new programs that augment existing efforts, we believe that these recommendations are too modest. As indicated earlier, we believe that there is both the need and public support for major housing initiatives. We recommend that the Committee review the report of the National Housing Institute, *A Status Report on the American Dream*, that clearly documents this fact.

The American Association of Homes for the Aging is grateful to the Committee for the opportunity to comment on needed reform efforts. Our AAHA members believe that the American public is beginning to recognize the magnitude of this national problem, and the need for the federal government to recommit its resources to meet the housing needs of Americans of all ages. AAHA is pleased to be a part of this effort; and looks forward to working with you and the Committee for a workable solution.

Senator Cranston, I would also like to personally congratulate you for your leadership in this effort and for receiving the AAHA Distinguished Service Award which will be presented to you at our luncheon this afternoon.

governments to take on a greater responsibility to provide affordable housing. Out of this have come many innovative programs between the public and private sectors. This is by no means a replacement for the adminstration's withdrawal of funding, however, the creative efforts on the state and local levels can become models for the federal government.

It may perhaps come as no suprise that disabled Americans are much poorer than non-disabled Americans. A recent nationwide poll of disabled Americans conducted by the survey firm of Lou Harris and Associates, indicated that apporximately 27 million individuals between the ages of sixteen and sixty-four who are not in institutions, are disabled. And, based upon 1984 statistics, 50% of all disabled persons have household incomes of $15,000 or less. Among non-disabled Americans, only 25% have household incomes in this bracket. As a result of their low income, many disabled citizens are precluded from obtaining the American dream - owning one's own home. Therefore, handicapped persons are, for the most part, renters or potential renters and represent a significant portion of the pool of persons eligible for federally subsidized housing.As I mentioned earlier, what is needed is a national housing policy which ensures that affordable and accessible housing will be available to people with disabilities. The system of requiring a small number of special accessible units has not worked as well as hoped. The disabled people for whom the units were intended often did not rent the accessible apartments. Because the percentage of new units were required to be accessible was small, disabled people often had difficulty locating available accessible units. Because the quotas applied only to new contrcution, the rent for accessible units was often too high for some disabled people, many of whom live on fixed or limited incomes.

Some builders and owners also had trouble renting accessible units to non-disabled people. Prospective tenants did not like the institutional appearance of the grab bars in the bathroom or the unevenness of the kitchen counter with the lowered work surface. Some owners felt that they were losing money by providing units that it appeared no one wanted or needed, and some began to lobby to have the mandatory percentages of fixed accessible units eliminated or drastically cut back.

What is needed is an approach which is flexible enough to meet the needs of people with disabilities and able bodied persons. Adaptable housing, a little understood design approach, appears to be one solution for many of these problems. It holds the promise of more universally usable housing in the future at little or no extra cost.

Adaptable housing is accessible housing that does not look different from other housing and which has features that in only minutes can be adjusted, added, or removed as needed to suit the occupants whether they are disabled, older, or non-disabled. By creating housing that can fit any occupant, the adaptable design approach opens up the possibility for mass-produced, attractive, and universally usable housing in all sizes, price ranges, and locations.

For the past 15 years, the concept of adaptable housing has been continuously developing into a method for residential design. Adaptable housing features are now specified in the national and federal standards for accessibility which have been adopted into many state and local building codes.

Truly adaptable units can be adjusted or adapted without renovation or structural change because the basic accessible features like door width and ground level entrance are already part of the unit. Non-structural adaptions may include changing counter and sink heights; removing a cabinet to reveal a knee space under the work surface, kitchen sink, and bathroom lavatory; and attaching grab bars if needed. These changes can be made without delaying occupancy by the new tenant. The building maintenance staff, tenant, or owner should be able to make these simple adjustments in a few hours.

When adaptable dwellings are built correctly, they have the same features as those required in fixed accessible units, but the standards allow some of the features to be temporarily hidden by cabinets or omitted for marketing to people who don't need them. An adaptable unit is an accessible unit with features that can be tailored to the specific needs of the tenant.

HUD should vigorously undertake a major campaign to educate the building industry about the many benefits of adaptable design and dispell the myths surrounding cost for accessible design.

In 1979 a HUD study found that the cost of incorporating accessiblity in the design and construction of residential structures was under 1% of the total cost of new multifamily construction. In 1982, the Architectural and Transportation Barriers Compliance Board quoted findings of ½ of 1% for preconstruction incorporation of adaptable design features. Both of these studies projected their estimates on the basis of full compliance with the existing ANSI standards, the full complement of which far exceeds the requirements of my recommendation of adaptable design.

For the adaptable housing concept to succeed, it is vital that enough units be built to meet the demands of both the disabled and non-disabled community. This number needs to be much greater than the small number of fixed accessible units that have been required.

An increase in the number of adaptable units will benefit all people who need improved access with no disadvantage to others. Mass production, improved marketability, and further refinement of methods should prevent costs from becoming a disadvantage to owners.

It is generally accepted that there are over 36 million disabled people in the U.S. and they are from every socio-economic strata and if one includes older people, at some point everyone must be included.This is a significant potential market.

With increased experience with the adaptable housing concept and growing participation of product manufacturers and better market information, the building industry may find that most houses can be made accessible at little or no increase in cost.

We already have the technical expertise to accomplish adaptable design. What is needed is a positive statement from the Federal government to make this a reality.

Thank you for the opportunity to present PVA's views to the Subcommittee and we look forward to working together to create an accessible housing future for our nations' citizens with disabilities.

Senator **Cranston**. Thank you very much. I am sorry that I missed part of your testimony and that I missed yours, Mr. Carling.

And, Mr. Perkins, I thank you for your remarks about the fact I am going to be with you later today and receive an award from your group.

I am now delighted to welcome a constituent, Father Joe Carroll of St. Vincent DePaul Center in San Diego.

I have heard a lot about your great work.

Senator **D'Amato**. Formerly, Mr. Chairman, of New York and South Bronx, and I told him we need him back there. [Laughter.]

Senator **Cranston**. Very wise man to move from New York to California. [Laughter.]

Al, I thank you very much for your chairing while I had to be absent.

STATEMENT OF FATHER JOE CARROLL, ST. VINCENT DE PAUL CENTER, SAN DIEGO, CA

Father **Carroll**. As regards to the report, I just want to make two quick comments on it, and then I am going to show a little slide show.

I am a little disappointed in it because it glosses over the needs of the homeless. In a very brief statement it says you can't develop a housing program without taking care of the homeless, and then it goes on, in effect, to forget the homeless in the rest of the report.

Then also, a very important area of low-income housing that I think gets forgotten is the single-room occupancy hotels. They do provide affordable housing for a certain population. These are the single rooms in downtown that have been—one of the great causes of homelessness is the way they have been destroyed as part of redevelopment, and that population, as I see it, we've got to avoid the middle-class mentality.

In San Diego, when we built Wharton Plaza, we tore down like a thousand units, and what we did was build 1,000 low-income units to replace them, saying that people could not go from $300 for a room a month to $150 a month, but they had to buy three rooms. And in effect, we raised their rent, made them buy three rooms of furniture, where actually a lot of these people preferred just to live in a single room where they can do a little bit of cooking and have a common area.

So, I think that should be brought into the report somewhere along the line.

What I am going to do is just briefly tell you my own history, how I got involved with the homeless. Five years ago the Bishop called me into his office, and I was working in a parish, and he said, "Tomorrow morning, you are the new director of St. Vincent DePaul."

I asked him, I said, "You know, in the seminary"—I was relatively newly ordained—I said, "they told us that nowadays Bishops offer assignments to priests and that we're allowed to say no." I asked him if this was true. He said, "No, it isn't true in San Diego." [Laughter.]

Father **Carroll**. As I tried to convince him I would much rather be in parish work, I knew nothing about social work, and finally he said that they did have a parish open in Needles, CA, which—Senator Cranston knows where that is compared to San Diego—so I definitely took the job rather than the 110 degrees in the winter.

So, when I took the job, I said to him, "Why of all the priests in this diocese did you select me to be the director of St. Vince DePaul? What outstanding quality of holiness?" He said that he had asked eight priests who they thought was the biggest hustler in San Diego, I was the only name they could come up with. [Laughter.]

So, my New York reputation as a hustler stayed with me. A hustler to me is somebody who sees a problem, comes up with an answer, but in the case of the hustler, most of important of all, he gets other people to pay for it. [Laughter.]

I think this committee has got to come up with that same approach. There is a problem called homelessness. There is a problem called housing shortage.

Senator D'AMATO. Father, I want you to know that Senator Cranston and I are working on that. I think we could use you. [Laughter.]

Father Carroll and I found out that three sources of money in life are the private sector, the nonprofits, and of course the Government.

So, I would like to show you our end product.

The concept, when I went around the country, since I didn't know anything about homelessness, was how do we build a shelter that puts together everything necessary? We only opened up in September.

[Slide.]

This was the grand opening where the ribbon was cut by Mrs. Joan Kroc. She is one of our major donors. This gives you an aerial photo of the spot, the location. You can see that we're in an area that begins housing on one side and it's really a warehouse area. It's sort of the end of downtown, the beginning of the residential area; so, it fits between both areas. It was easier politically to get all the approvals.

The house is basically built around a courtyard concept.

[Slide.]

We serve residents as well as people still living on the streets. On the side facing us, those little alcoved areas, that's a dining room that serves a hot lunch 7 days a week, 6 days by the Catholic workers, the seventh day, Sunday, by the Jewish communities so that we Catholics can be at our parishes.

The first doorway for the unsheltered, those living on the street, is a shower facility where they can come in from 8 to 4 anytime during the day, take a shower, get a haircut. There is a barbershop. They can get a change of clothes. They can also pick up mail. They can also pick up phone messages. And it's also a great place for the county mental health workers to meet the mentally ill that are on the street.

[Slide.]

On the far side of the building there is a complete medical clinic open to residents as well as those still living on the street. It has a minor surgery room, pharmacy lab, totally self-contained.

[Slide.]

The courtyard is designed so the residents can go outside without having to go back on the street.

[Slide.]

These are just a series of aerial photos. As you can see, the courtyard there, next to it on the left, that white building is an old warehouse that we own. Our plan is to eventually remodel it and add 200 beds for single men. Presently, the new building holds 400 population, which includes families, single men, and single women.

[Slide.]

This is another shot of it, again looking over at the residential area.

We hope eventually—if you see the part closest to the Senators, the two warehouses—our plan is eventually to buy that property, close the street, make a park, so that the homeless that prefer to live outside can sleep in the park, and then eventually build an SRO, which is along the trolley line there, and another shelter so we would be able to expand our program within the next couple of years.

My Bishop doesn't know all that yet. I haven't told him yet. [Laughter.]

[Slide.]

This is the tower. The building, we told the architect three things: It had to be beautiful so that it fit the redevelopment, so I had a nice place to go to work, and that would enhance the dignity of the homeless people. It also had to be energy-efficient.

The tower is aimed toward the ocean. We're lucky in San Diego, we have a natural breeze. It's actually a funnel. The breeze goes through it, down to the second floor, by natural heat rises to the third, as the wind passes the lower tunnel tower, it sucks it back down.

So, by just sending air through the building, we actually cool the building down for less than $10 a month just using natural air.

[Slide.]

This is the building as it gets near twilight. This is the entryway to the building. Again, it enhances the dignity.

[Slide.]

Again, this is the lobby. You don't feel like you're coming into a shelter. So, you bring your family in here to stay, you feel like you're coming to a nice place.

[Slide.]

This is the corridor to the rooms. The carpeting is a carpet tile, where if you stain one carpet, you take it up, take it down to the washroom, wash it in the washing machine, put it back in. So, the building will always look neat. It's easy to maintain.

[Slide.]

This is a typical room. Double-decker bed for the kids. Queen-size bed for the parents. There's a sitting area, closets.

If it's single men, it's two double-decker beds. Or for single women, it would be two double-decker beds.

[Slide.]

This is the alcove on the far side of the building where the unsheltered would come to line up for meals. There are benches in there, which helps the city keep everybody happy by the fact that those coming to our center are not messing up the street as badly as they would.

[Slide.]

This is the dining area where we got an idea that I grew up with in New York, where every Catholic Church's hall was convertible to a basketball court. So does our dining room. The tables and chairs fold up, go off to the side. You can see the basketball hoops. It becomes a gymnasium after meals.

[Slide.]

This is our clothing room where we give away free clothes.

A unique program is this center is our resource center where we give people housing counseling. We help them negotiate leases. We help them find out where to live, what neighborhoods to be in.

We also help them here with a job training program. We have negotiations with 15 different companies who call us first to let us know of jobs, and they interview our people first. We have a deal with the Hotel and Motel Association in San Diego where all jobs at all hotels are sent to us first to see if we can find a client.

[Slide.]

These next three slides are the San Diego County Public School. We have a public school located on site so the children during the day are going to school. We have around 100 children a day in the building. About 50 would be school-age. The county provides us with four full-time teachers to work with the kids and develop programs.

[Slide.]

This is our chapel. It's nondenominational. At Christmas time we had a Hanukkah service by Temple Beth Israel, an Episcopalian memorial service by Episcopal Community Services, and I did midnight mass. So, we took care of everybody, we think.

[Slide.]

This is a typical bathroom, tiles floor to ceiling, easy to maintain, easy to clean, and very nice to look at.

That is just a quick series of slides.

The basic concept that we went under is that everything should be in one center. It should be self-contained and so once a homeless client comes in we can basically solve all their problems. The county has welfare offices located on site. We're negotiating with VA. And social security is located on site so that if people need to apply for disability, they can do it right in the building. If they need to apply for welfare, whatever agency.

We just basically bring everything into the building. We have all kinds of classes and management. I think this is where homeless agencies and, in effect, housing has got to go. More and more we have to bring services to the poor to make it easier and more convenient for them and, therefore, our success rate will be much higher.

So, basically, I just want to close with one last story. Why I think most Americans, as the polls said, would really be willing to pay money for the homeless and the needy, because you know, when you think about it, you and I, all of us, basically are very wealthy.

This came to mind once when I was on a Boy Scout trip a couple of years ago. When I plan Boy Scout trips, every summer I take a trip with a couple of Boy Scouts, and we plan our trip like every

500 miles to stay somewhere. What I do is call up local churches. I call the priest or the minister or rabbi and I say, "Hi. We're coming into your town. I am a priest from San Diego. Can you put me up for the night?"

They always say yes. Then I mention there's 120 kids with me. [Laughter.]

And what we basically do is stay in the parish hall. We sleep on the floor.

And during this trip that I particularly remember, I was driving a car and the kids were in the buses. I stopped for a red light. The bus didn't. You can imagine what happened to my little car. We got a little crushed. I was put in a cast and crutches. And every night the kids had to help me down to the floor.

Well, you know, after 3 weeks of that, when I got back home to my rectory and to my waterbed, when you get into a waterbed, it goes "sshew, sshew." That night it just went "sshew." Do you know what it is to have a bed? Think about it. You and I have a bed to go to every night. In the case of Senators, you have one on each coast, you know, one here and one back there.

But, you know, that's a wealthy thing to do. And I don't just have a waterbed. I'm like most people. I like a little extra space, so mine is a big, king-sized waterbed.

I once had the Boy Scouts there, and they said to me, "Father Joe, what's a priest doing with such a big, gigantic waterbed?"

I said, "What's the Boy Scout motto? 'Be prepared.' I'm ready for the day when the Pope changes the rules." [Laughter.]

But, you see, you and I can do that. We can plan impossible dreams. [Laughter.]

I think the homeless want to have a bed, and I think the dream by the year 2000—we've heard that theme over and over again—would be that a bed is available for every American, whether it be in a shelter, whether it be in an SRO downtown, whether it be in low-income housing, whether it be in the Meridian, which goes for $1 million an apartment in San Diego, wherever it is. I think if we set that as a goal, I think all Americans would rally around it, because we really are blessed with all the things we have.

So, that is basically all I have to say.

[The complete prepared statement of Father Joe Carroll follows:]

FATHER JOE CARROLL
St. Vincent de Paul Center
1550 Market Street
San Diego, CA 92101
April 14, 1988

Housing is a problem that has always been with us. Its circumstances may change and our response from generation to generation is different. From Adam and Eve leaving the Garden of Eden to Abraham, father of many nations being brought out of UR of the Chaldees to Moses in the desert to a young jewish couple in Bethlehem to the Pilgrims arriving in the new land. The world has had a history of expansion where people have looked for new places to live, to find their own homes and shelter. Here in the United States log cabins, Teepees, covered wagons, pueblos, California missions, Father Flanagan's Boys Town, the Civilian Conservation Corp camps, hobo camps, and HUD Housing - we have a history full of people seeking a place to live. Each generation of Americans sought solutions to the problems of growth in population and the need for housing and our government and private sector always had a role to play. For example if we look at the opening of the West the railroad made land alongside their right of way available to homesteads - the government opened up vast tracks of government land to the new settlers. Homesteading - housing has always been part of the government and private sector involvement. As we celebrate the 200th anniversary of the Constitution we remember its beginning phrase - "We The People" - our whole existence is based on a belief in the people - the citizens that make up America. Years ago there was a slogan to "Invest in America" and I'd like to make a slight change of this slogan to "Invest in Americans" - invest in those Americans who need a place to sleep, a place to call home so that they can again become part of the American dream. As each generation needed housing, our nation came up with a plan to be sure that each person had opportunity at a place to live.

Let us together invest in our people and their housing needs - we the non-profits - you representing our government and together calling on the private sector.

Of course times have changed since the days of the land grants and the need is much more complicated. We need to develop a plan that encompasses the multiplicity of housing needs.

From the unsheltered - who simply need a bed each night;
To the transitionally homeless - who need affordable housing and services;
To the poor - who need clean, safe and affordable houses;
To the young families and middle class who need opportunity to buy their own home;
To the elderly that need senior housing;
To the handicapped that need accessible housing and services.

The legislative manner in which this is accomplished I leave up to you, your staffs and others who know more about the development of legislation. The only suggestions I want to make is that the following should be included in your directions to the staff -

Simplicity - keep it simple - easy to understand, easy to apply and easy to manage.

Networking - stress the partnership concept between government - non-profits and the private sector. All of us need to invest in our fellow Americans.

Be flexible - The United States is a real mixture. Use local ideas and opinions. No one solution fits all - an example is that emphasis is usually put on rehabilitation of present stock of housing. This is prejudiced against a city like San Diego where we don't have large segments of our city to rehab. We are a relatively new city and for us new construction is a better answer. Issue guidelines but not absolute rules that cannot be flexible to respond to these differences.

Use Common Sense - People want adequate housing for their usage. Doesn't have to be elaborate but should be clean and adequate. Example is when I grew up we had a 2 bedroom apartment in the Bronx - for 10 of us. I didn't realize I was poor until I went to college - sure it was crowded but it was our home and we were happy.

Be Careful of Middle Class Mentality - by this I mean not to insist that we upgrade everyone to what we consider middle class housing as the norm. My example is that in San Diego when we destroyed some Single Room Occupancy (SRO's) hotels as part of our redevelopment we required that they be replaced. We thought it would be great to upgrade these poor people who were paying $200 a month for a single room. Our answer was to lower their cost to $110 a room but they had to take a three room unit thus their rent was now over $300 a month and they had 3 rooms to furnish, clean, heat, etc. You know they were happy in a 10 X 10 SRO but now they are homeless because we wanted to upgrade their housing. Let's design what people need not what we want them to have.

Encourage Mixed Housing Within Reason - When I grew up in the South Bronx our family rented an apartment in a typical tenement building. Next door was what we called the "white house". A large apartment building with a doorman, an elevator - the next step up the ladder - it helped motivate us to better ourselves so we could eventually move into the next level of housing but it was the next level. We should not put low income housing in extremely rich neighborhoods or else goals are set too high and local services are too expensive for poor. Balance important but be reasonable.

Be Aware of Special Needs - the unsheltered or homeless, the elderly, the handicapped. These populations need specialized housing and the Departments for each organized to concentrate on their needs and the uniqueness of their housing needs. Perhaps a staff specialist for each - homeless, elderly, handicapped.

Access to Necessary Services - is a necessity to those with special needs and is also good business for all the levels of the poor. The homeless and poor need social services, medical, counseling. Shelters should be comprehensive so there is a limit of referral.

Elderly housing should have a vision that they will become more frail and invalid in time. Can the housing be designed with potential space for the services that will be needed. A visiting doctor's office, an office for county home care workers. The longer people can live in familiar surroundings the happier they are. It is also cost efficient.

The handicapped, particularly the mentally ill, need services to be on site. For example, the housing should be large enough to make it cost efficient to have on site case workers, a pharmacy, basic medical services, common kitchen facilities, security. I don't feel that small group homes can provide the necessary services in a cost efficient manner but perhaps a high rise for handicap persons similar to today's senior high rises where the handicapped can receive multiple services in a cost efficient manner.

These are the guidelines we used in San Diego when we designed and built the new St. Vince de Paul - Joan Kroc Center. We started with a parking lot and a priest who knew absolutely nothing about the homeless. I traveled for 3 months around the United States visiting shelters and soup kitchens and saw nothing that was really designed to help the homeless. Agencies were doing the best they could in buildings designed for other purposes - an old warehouse, an apartment building, an old hotel, etc. We had an opportunity to design and structure that was for the homeless. The guidelines given to the architect in January 1983 were simple -

1) it had to be beautiful - to both fit in with downtown development and to enhance the dignity of the people who came for help.
2) it had to be energy efficient and low maintenance
3) it had to have all services we believe were necessary to serve the homeless in the center - no referrals if possible.

The St. Vincent de Paul - Joan Kroc Center that opened in September 1987

- cost for land construction furniture, etc. $12 million

Provides a multiple of services

- residential for 350 - 400 persons; single men and women and families
- case management
- meal service to residents as well as a free lunch to those still unsheltered (600 - 800 daily)
- medical services to residents and unsheltered
    - minor surgery, pharmacy, lab
- a county public school for grades K - 12
- day care
- county welfare office on site
- employment counselors
- housing counselors
- day center for unsheltered
    - showers available 8 a.m. - 4 p.m. daily
    - free clothes 3 days a week
    - barber shop
    - mail and phone message service
    - contact with county mental health workers
- courtyard for residents and children to get outside but still within shelter
- a safe environment
    - 24 hours a day security guards
    - sophisticated security camera system in all public areas
    - computer coded cards for all residential rooms
    - photo ID's on staff, volunteers, residents, etc.
- partnerships
    - $12 million all from private donations
    - network with 70 agencies who place clients in center
    - government funds for programs

Senator **Cranston**. Thank you very much for your very lively testimony.

I want to ask you, Father Carroll, about one particular recommendation of the task force. It was in connection with number 11, new sources of capital.

BENEVOLENT LENDING

They recommend that we expand on and build on something called benevolent lending, saying in the task force report that:

> There is some promising new sources of funds for financing housing at low rates to families with very low incomes. It is called benevolent lending. Under this program, individuals, corporations, churches, foundations, and others are encouraged to lend funds at rates as low as 3 percent to finance low-income housing.
>
> The early success of benevolent lending programs indicates that a very large flow of funds can be developed if the system can be made safe and simple.

They referred to Jubilee housing, which is done very well here in Washington, and the Enterprise Foundation's work under Jim Rouse in Baltimore, and note that the annual flow of funds in charitable contributions in America is large and growing. In 1986 it exceeded $81.5 billion. That is up 172 percent from $30 billion just 10 years ago, and that includes a lot of money from corporations, a lot from foundations, and mostly $72 billion of it by individuals.

Do you think that's a promising source, and can you suggest how we might organize to hit that source, in your role as a hustler?

Father **Carroll**. Our building cost $12 million. There's not a nickel of Government money in the entire building. So, I think it's out there. I think people want to respond to the needs of the homeless and housing in general in the private sector.

We did our own poll. We were on "60 Minutes" 3 or 4 years ago, and we called 5,000 people around the United States to watch the show, 5,000 afterward, and got 80 percent of people who would like to support shelters similar to what we are doing, who would like to put some of their own personal money in it. And I see more and more corporations like the insurance industry developing benevolent loan programs.

So, I think it's an area that we can't forget. The private sector has got a lot of money out there. And our building, for example, $12 million, all private sector. We get money from McKinney. We get money from FEMA to operate it. And this year we will get over $800,000 in Government money. And of course, we've got the church. I mean, I get collections in all the churches. The Mormon Church is voting right now and taking up an annual collection for St. Vincent DePaul.

So, I think there is a real desire out there not just to say Government do it all, but for the private sector to be involved, and somehow we've got to try to bring that together. And I happen to believe there could be a real national drive for the homeless that would work. But that's another plan.

Senator **Cranston**. Well, maybe at some point you could help us devise a program and get billions of dollars out of that source for housing.

A general question to whoever wants to answer it, or perhaps several of you do.

When the McKinney Homeless Assistance Act was moving through Congress, I supported a program called supportive housing, recognizing that we have to link building design and human services if we're going to meet the housing needs of the elderly, the handicapped, and the homeless.

This administration has resisted the linkage of housing and services. The needs of each of these groups are different, and we should respect those differences.

Do you think it would help if we considered setting up a special assistant secretaryship of HUD for supportive housing with a distinct office to address these special needs?

Would any one of you want to respond to that?

SEPARATE OFFICE AT HUD

Mr. **Perkins**. I think that it's an idea that certainly has merit and that ought to be seriously considered, particularly in the sense that as we move along the continuum of life, that is—of course I am the addressing that particular aspect because that's my area of concern—need of support services increases. And if that support service is not met, it means that the shelter portion of our housing is not going to fulfill its needs adequately.

So, I am very concerned that we link effectively housing and support services, especially for housing our elderly.

Mr. **Carling**. I would like to respond in terms of the mental health population. Having worked in the Federal Government for a while, I am always a little nervous about creating new Federal offices and having new Federal staff.

I think the key issue—and it comes out in the task force report loud and clear—is creating programs that have close relationships between the Federal housing agency and those folks who actually provide services, whether that be at the State or the local level.

There is an enormous amount of activity now, more than I have ever seen in my dozen years being involved with this issue—in the mental health field—of States doing very, very creative things both with housing and with combining services and housing at the State level.

What they lack is any Federal support or any flexible Federal funding to achieve those kinds of goals. So, whether or not there happens to be a specific office for that, I think it's terribly important to build into the structure of any new Federal housing program close relationships or the ability for partnerships with State mental health agencies and local service agencies as well.

Father **Carroll**. I lean toward there being somebody responsible for it, because if you take the report, if we had some office definitely for supportive services, we might have gotten a larger segment of it. But you've got the homeless, the mentally ill, and the elderly were, so to speak, just mentioned in the report.

I think that happens with so much legislation. It is almost left to the end. Homelessness you're always going to have. Mental illness you are always going to have. The elderly you're always going to have. It seems we should have professionals somewhere in our Government, whatever title you want to give them, that specialize in that area and keep Congress aware and the Nation aware of those three particular supportive needs that are needed there.

I think you can see in our case, we felt without supportive services there was no need to do the shelter. Without that, it would not work.

Senator CRANSTON. Al, questions?

Senator D'AMATO. Thank you, Mr. Chairman.

I might first say that certainly Senator Cranston and I are deeply appreciative of your appearance today, particularly in light of the fact that we are going to be working on legislation to provide supportive services for housing populations that are specific. As it relates to needing these services, I think those groups comprise basically the homeless, the elderly, the handicapped. You have all talked about them, the elderly.

I am particularly interested in what you would say are the most essential services that are in need to accompany the housing components for these various groups.

For example, the mentally ill. What would you think is the most significant component?

Mr. CARLING. Well, let me just say that we have had the enormous benefit of a lot of rethinking of that in the last 10 years, given what has happened with deinstitutionalization and the failure at both the Federal and State level to provide the kind of services consumers need.

Senator D'AMATO. If I might.

Mr. CARLING. Sure.

Senator D'AMATO. If I might interrupt you just for a moment to make an observation and I wonder if you would comment on it also.

It just seems to me that such a significant proportion of the homeless would appear to have problems of mental illness, associated with mental illness.

Mr. CARLING. Yes.

Senator D'AMATO. Very significant. Is that so?

Mr. CARLING. Nationally, the studies vary anywhere from 10 to about 80 percent. But the average that we see is about 30 percent. And that doesn't necessarily mean all those people have been in an institution. For many people, it means that if you are on the street for a couple of years, you develop major mental health problems, which is understandable.

COMMUNITY SUPPORT SYSTEM

The kinds of services that people need are today so much clearer than they were 5 or 10 years ago. It's very clear in terms of mental illness—I will just focus on that—that folks need what we now call a community support system. They need case management. They need 24-hour crisis services. They need help getting housing. They need help getting jobs. They often need rehabilitation services that help teach them the skills they may have lost in an institution.

And increasingly, we are seeing a lot of benefit from self-help and mutual support kinds of approaches, very much parallel to the independent living movement and the enormous gains they have made in the last 10 years.

So, the good news is I think we are very much clearer on what people need to succeed. The difficulty is not having either the housing resources or, in many cases, the services resources to make it happen.

I just want to say one last sentence, which is to very much echo some of the testimony around other disability groups that you have just heard. The great danger with the most visible of the mentally ill, which is people on the streets who have obvious mental health symptoms, is that society will revert to solutions that 10 to 20 years ago failed, which is to basically segregate those individuals in places where society doesn't have to look at them.

We have done probably the first research in the country on actually asking mental health consumers where it is they want to live, and it's remarkable that in all this debate about deinstitutionalization, there has been virtually no study up until the last couple of years about where consumers want to live.

Overwhelmingly, they do not want to live in those kinds of settings. So, I think the real advantage of the very good work that this committee is doing is figuring out in every possible way how to include the mentally ill population in every other housing benefit we're talking about. But we do know now much more clearly what the service needs are, and I think we are in a much better position to support people in the community.

Father CARROLL. I would go with the idea of case management or conservatorship is very important, striving for that balance between civil rights and their right to do damage to themselves. You know, where does the public good come in in those cases? Because, you know, a lot of them can get disability. They need somebody to help them manage the money that gets them into housing, that gets their medicines.

Senator D'AMATO. Father, could you comment or give us a better insight as it relates to, No. 1, how do you screen your patient load for the home, those that you take into your shelter? I note from some of your testimony that you don't take everyone; for example, drug problems, chronic alcoholism, et cetera. You don't bring them in.

How do you screen, and then what do you do, and how long a period of time do they generally stay? What is your experience?

PEOPLE ARE SCREENED FOR SHELTER

Father CARROLL. OK. We have a network, which is the thing I think is very important in this field. No one comes in off the street directly into St. Vincent DePaul shelter. We network with 93 agencies in the field. When they take on a client, meaning it's their client, they're going to do the case management, then they can reserve a room in our shelter, and we provide all the supportive services within house, but they're actually being managed by that agency.

So, it all depends upon that agency's criteria. Normally, they're people who can be rehabilitated. I mean, you can't drink in the building and drug addiction is not allowed in the building as far as residential.

But then we have the medical clinic and all that available to anybody on the street no matter what.

Our next shelter will be single men. As long as they come in and don't cause any trouble, they can stay there. We're going to change the approach somewhat.

Right now it's a very sophisticated screening system through a network of 93 agencies out there. The mentally ill probably only get in to stay a short time with us because they stay with us long enough until county mental health finds a residence for them or a program that they fit into.

Senator D'AMATO. You don't actually manage then the medical, let's say, the psychiatric help or counseling?

Father CARROLL. Well, once it's within the building we do. OK. Once they're in the building, we provide all that and manage all that, and we provide reports to their case manager who's managing their overall program.

Senator D'AMATO. So, you have that total comprehensive there, but it may be the county who refers you, one of the county agencies, for that particular family?

Father CARROLL. Yes. In other words, they can't dump their client on us. They become part of the program so we don't end up with everybody's problem, but we end up working together and using their expertise in whatever field they're in, rather than duplicating it.

And with the new McKinney money that we just got, we are opening up a whole wing as transitional housing, so you could stay anywhere from 3 days to 6 months, 9 months, 1 year, whatever time it takes for you to be stabilized enough for us to move you out. In other words, you've saved enough for the first month's rent and the last month's rent, you've gone through the budget classes, the clothing, how-to-dress classes, all the different programs we have within the building. Then you move out when you're ready to move out. So, it could be any length of time.

We're trying to package the program around the individual so that we basically say that we'll take you in and we're successful with you, all our money was well invested. But if we only finish half the product, then we have really wasted all our money.

So, that's how our basic philosophy is, to stay with you as long as necessary, whether it be 3 days or 1 year.

Senator D'AMATO. At the present time it would be we couldn't get a time factor as to what the average stay is, given the fact you've really opened in September.

Father CARROLL. Yes. Well, your dominant numbers are your 3-day stays, 3 to 7 days. They stay long enough to get a place or to move on.

Senator D'AMATO. Family emergency, crisis, burnout?

Father CARROLL. Battered wife, you know, et cetera, et cetera, until we get them into another program.

Normally, the stay is about 14 days. Our greatest success rate is once we get them to stay 30 days or more. We have a 78-percent success rate on the 30-day-or-longer program, which means you have 1 year of positive cash flow, 1 year of same residence after you left us. That's what we consider success, because we base that upon the fact that the program has taught you the skills needed to be out there on your own.

Senator D'AMATO. Could you make any observation on the percentage of those clients you feel have mental problems?

Father CARROLL. Yes. On a general population of homeless, I believe it's about 30 to 40 percent. I think you get 30 to 40 percent—my own statistics—of mentally ill. About 30 to 40 percent that would be transitionally homeless, meaning they lost a job, they lost an apartment. And 20 percent, that's probably your hard-core homeless that probably need some sort of permanent shelter program that they can go to whenever they want to come inside.

Senator D'AMATO. So, you will literally be moving thousands of people, giving them that brief respite, et cetera, in the course of 1 year, people and families, through your home.

ABOUT 1,000 PEOPLE A DAY GET ASSISTANCE

Father CARROLL. We estimate in our building 1,000 people a day get some help, whether it's a hot meal, see a doctor, a shower, or are part of the residential program, because even those on the street can see the welfare worker in the building, can see the VA worker in the building. So, they just come in and make appointments and just go in and see them.

So, what we want to do—when I first started, we had the great referral system like everybody else had. For example, if you wanted a clean shirt from my thrift store, I sent you to Catholic Charities, which was 16 blocks away to get a voucher to come back to our store and get a 50-cent shirt.

I said, "This is crazy. We've got to do it all in one center, or it doesn't make sense at all." And that's what we basically did. We brought a lot of other agencies into our center. Like I say, the Catholic workers and Temple Beth Israel do the meal lines. We have other groups who run a lot of other programs in the center. The county runs an awful lot of programs. The county funds the school. The county runs stress management, personnel management, parenting classes.

Senator D'AMATO. Father, what is your Bishop's name? [Laughter.]

Father CARROLL. He's about to retire. No.

By the way, I also forgot to mention we have an underground parking garage for 120 cars. So, we have a tremendous amount of volunteers because they have a safe place to park their cars.

Senator D'AMATO. Well, I would think that the Cardinal might want to park there.

Father CARROLL. That's OK. I like San Diego.

Senator D'AMATO. Well, O'Connor might just, you know, do a lend-lease program. [Laughter.]

Because we really need you in New York.

Senator CRANSTON. No, lay off. We need him in California.

Senator D'AMATO. Mr. Perkins, let me ask, if you were going to make one specific recommendation as to where the report could be enhanced, the work of the task force, what would you recommend as it relates to the elderly?

Mr. PERKINS. Well, I believe first of all that the report is very positive.

The part that concerns me, of course, and the membership of AAHA that I am her to represent, work with, is the fact that if we could use an example of the congregate housing program as a good example of support services attached to housing for the elderly, as we move along with people who come to us at 62 years of age and certainly they are living a whole lot longer, so you reach 80 or 85 years of age, the deterioration of the health sets in. We are talking about a premature institutional situation that we can look at and save certainly lots of money.

If we could provide those extra services to those elderly people in terms of social services, nonmedical inhouse services, the good social workers that work with us, these are the primary ingredients that would prolong the stay within those homes.

If we are going to spend $7 million for housing for the elderly in one setting and after an 8-year period or a 9-year period of that person within that home, that individual should be able to enjoy that home beyond an 8-year period.

So, if we could bring that module into play within that facility, I think that is where the program would be enhanced and made a very working model.

Senator D'AMATO. Thank you very much. I think that is certainly something we have to look at. It makes sense not only for that individual but economically, as you indicated.

Mr. Capozzi, if you might make one suggestion as to how or what we should look to implement that maybe the task force didn't place sufficient emphasis on?

Mr. CAPOZZI. I wanted to answer your preceding question also where you requested information on what critical services would have to be provided in order to make housing livable for people with disabilities.

For people with disabilities, specifically those with severe disabilities, those who use wheelchairs, what may be needed is attendant service care. Attendant service means assistance in the activities of daily living. It's not medical assistance, but it's assistance with eating or dressing or grooming or bathing or cooking.

It's assistance that can be provided by generally untrained individuals that can be trained by the consumer and bring in a relative or a low-paid attendant. Then those services can be provided in the home, which will allow the person to live independently, or as independently as they can. Oftentimes handicapped individuals can't even get into the door because landlords put the burden on the handicapped person to show that they can live independently without any assistance at all before they can even move into the apartment or the unit.

The one recommendation that I would make is that, for my purposes, the report didn't really address the needs of people with disabilities, specifically those who use wheelchairs, and it needs to do that.

I would recommend that in the future, as opposed to a few specific institutional-type accessible units, we look at making housing usable for everybody, and adaptable housing would do that. If you make the doors wide enough, make a level entrance, and provide studding so that a person can put on a grab bar if they need it. It will be a unit that can be used by everybody.

The unit can be adjusted for the individual needs of people with disabilities, and it can be used by nondisabled individuals and people who are elderly that become disabled later on in their life.

Thank you.

Senator D'Amato. Thank you, Mr. Chairman.

Senator Cranston. Thank you, Al, very much for all your hard work and your help with us in all this, and for your vigor and determination. We're going to get a lot done.

We thank you very much for your testimony. It has been very, very helpful. We have had another good morning. We have built, I think, a very solid record of what we need to set out to do.

Thank you very much.

The hearing stands adjourned.

[Whereupon, at 12:40 p.m., the subcommittee was adjourned.]

        - transitional housing McKinney
        - medical clinic McKinney
        - Emergency shelter FEMA
- energy efficient
    - cogeneration
    - thermal energy storage
    - natural air flow system
- parking
    - underground parking garage for 110 cars - residents, staff and volunteers

"Can it be done?" is not really the question. It must be done! We did it in our small way so can all of America.

In the late 18th Century our founding fathers didn't ask if a constitution that based its power in the people could work - they just went out and wrote it, signed it and look what has resulted.

In the late 19th Century we had a belief that we were now a world power - not just a combination of colonies yet to grow up but a nation with a major role to play throughout the world. We have become one of the leading nations in the world.

As we prepare to enter the 21st Century let us in the next 12 years invest again in the American People. Millions of our people - the people who give us all our authority have lost or are near losing the American dream "of a right to life, liberty, and the pursuit of happiness." We cannot do it overnight but we should set in a motion an plan that sets us a simple goal" a bed available to every American by the year 2000". You have the opportunity to set this in motion now and to bring in the non-profit and the private sector to help continue this motion that will enable all of us to offer a toast on January 1, 2000 to the fact that we "invested in Americans" and that there is now a bed available for every American whether it be in a shelter, in affordable housing, or their own home. Housing available to everyone. It is a dream? I don't think so - I think its a matter of setting in motion in 1988-89 a commitment to provide "housing for all by 2000."

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STATEMENT
OF THE
ASSOCIATION OF LOCAL HOUSING FINANCE AGENCIES
TO THE
SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS
ON THE
REPORT OF THE NATIONAL HOUSING TASK FORCE

April 1988

Mr. Chairman and Members of the Subcommittee:

The Association of Local Housing Finance Agencies (ALHFA) appreciates the opportunity to provide comment to the Senate Subcommittee on the recent Report of the National Housing Task Force.

ALHFA is a nonprofit, national association of professionals in the field of affordable housing finance. Its 133 members are city and county government agencies which finance homeownership and rental housing opportunities for low- and moderate-income persons. Affiliate members are those organizations which provide technical assistance to agencies. ALHFA's purpose is to serve its members as an advocate before Congress and the Executive Branch on affordable housing policy issues, and, through educational activities, to enhance the ability of local housing finance agencies to implement responsible and professionally-administered affordable housing programs for low- and moderate-income persons.

At the outset ALHFA wishes to commend Chairman Cranston and Ranking Member D'Amato for their tremendous leadership in helping to restore the issue of affordable housing for low- and moderate-income persons to its rightful place on the national agenda. Extending an invitation to all national organizations including ALHFA to submit recommendations regarding changes needed in housing policies and programs and creating the National Housing Task Force are testament to that leadership.

ALHFA also wishes to commend the Chairman of the Task Force James Rouse, its Vice Chairman David Maxwell, members, and staff. Their efforts in analyzing past and present policies and programs were considerable, and their conclusions and recommendations were excellent. It is to these recommendations that this statement is directed.

In its October 5, 1987 submission to the Subcommittee, ALHFA recommended that:

The federal government should reaffirm as national policy "the goal of a decent home and a suitable living environment for every American family" first enunciated in the Housing Act of 1949. To achieve this goal, Congress should reaffirm the annual production benchmark of at least 600,000 units mandated in the 1968 Housing Act but abandoned over the past several years.

Pursuant to this policy the federal government, in partnership with local and state governments, the private sector, and the non-profit community, should stimulate affordable housing opportunities for low- and moderate-income persons.

Furthermore, Congress should rely on the lessons learned from past federal policy and programs and build upon the considerable capacity and expertise existing within local and state governments, the private sector, and non-profit organizations, all of whom have accepted greater responsibility for the provision of housing as the federal government has stepped back.

A. Assuming Roles to Provide Affordable Housing

1. The federal government should provide direct federal expenditures, provide appropriate tax incentives, and provide credit supports to stimulate affordable housing opportunities.

2. State governments should implement federal housing programs as appropriate but should never serve as the exclusive or primary deliverer of federal housing programs below the federal level; provide capital and other assistance from their own resources to local governments, to the private sector, and to non-profit organizations to create affordable housing; and remove any legal constraints on the ability of local governments to provide affordable housing opportunities.

3. Local governments (and their designated agencies) should: implement federal housing programs as appropriate, usually serving as the primary deliverer of federal housing programs below the federal level; to the extent possible provide local capital and other assistance to themselves, to the private sector, and to non-profit organizations to create affordable housing opportunities; and enact policies (such as inclusionary zoning, impact fees, and linkage programs) which increase affordable housing opportunities.

4. In partnership with local governments and their designated agencies, the private sector should be relied upon to the extent feasible to construct, own, and manage affordable housing for low- and moderate-income persons. In addition, the non-profit sector, where appropriate and feasible, should be utilized by local governments and their designated agencies to provide affordable housing opportunities through construction, ownership, and management. The financial, management, and creative resources of each participant in these partnerships should be leveraged in a way that results in the greatest benefit to those in need of affordable housing.

B. Learning from Past Experience

A new national housing policy should incorporate lessons learned from previous federal housing policies and programs.

1. Mixed-income developments foster a positive housing environment and have helped eliminate the stigma attached to publicly-assisted housing.

2. High-density public housing developments, with heavy concentrations of households with similar, very low incomes, are not conducive to a positive housing environment and are often socially counterproductive. Conversely, public housing units located on scattered sites have had much more success in gaining neighborhood acceptance.

3. Despite the fact that deep-rent-subsidy programs targeted to the very-low-income persons are very costly, they are the only way to respond to the housing needs of such persons and should be maintained and adequately funded as separate programs.

4. Flexible block grants to local governments have worked very successfully in the community development area and should serve as a model for housing programs.

5. Many local and some state governments have developed expertise in financing affordable housing which should be capitalized on in future programs.

6. Many local and some state governments have become very innovative in creating and packaging federal and other resources to stimulate affordable housing opportunities.

ALHFA is pleased to note that the Task Force recommendations respond very favorably to ALHFA's proposals that the federal government: reaffirm a strong federal role in housing; build upon the expertise and strengths of all levels of government, the private sector, and the non-profit community; and incorporate lessons learned from past and present federal housing policies and programs. As to some of the Task Force's specific recommendations:

Housing Opportunity Block Grant Program

The central recommendation of the Task Force is creation of a flexible $3-billion annual "Housing Opportunity Program" (HOP) block grant to stimulate state and local initiatives to develop, renovate, and conserve low-income housing. The program would replace the Rental Rehabilitation, HoDAG, and the Section 312 and Section 8 moderate rehab programs. Of the $3 billion, $1.5 billion would be allocated directly to large local governments by a needs formula (smaller ones would be assisted through the states). Ten percent would be set aside for nonprofit organizations, while 25 percent of the funds would go to public housing authorities. The balance could be distributed to the states to be matched dollar-for-dollar for use in state programs and for distribution to local governments. Eighty percent of the funds so distributed must benefit those at 50 percent of median income, with the balance for those whose income is no greater than 80 percent of median.

The 1.5 billion allocated to the states, together with the state matching funds must also be targeted -- 40 percent to those at 50 percent of median, 40 percent to those up to 80 percent of median, and 20 percent to those at not greater than 120 percent of median. All HOP funds could be used in mixed-income developments, but only to provide assistance to the targeted units.

Other requirements include development of a comprehensive, coordinated community stabilization and revitalization strategy; identification and removal of unnecessary regulatory barriers to housing development; and development of measures to address minority housing needs and to break down barriers to discrimination.

This recommendation is nearly identical to ALHFA's proposal for a rental housing production block grant (Housing Production Incentives Programs) modeled after, but separate from, the Community Development Block Grant program.

The Task Force's proposed HOP contains elements which ALHFA supports: wide flexibility in the use of block grant funds; permitting funds to be used in mixed-income projects; targeting funds to low-income persons; requiring comprehensive housing plans and strategies; removing unnecessary regulatory burdens; and developing measures to address minority housing needs and eliminate discrimination.

ALHFA notes that the allocation of funds between entitlement communities and the states for nonentitlement communities on a 70 percent-30 percent basis in the Community Development program has worked well and may be more appropriate than the 50 percent-50 percent basis proposed in the HOP. This notwithstanding, the fact that states would be required to match the funds they receive is significant and takes account of the potential non-federal resources which many states have, and which a few have already devoted to housing.

Tax-Exempt Multifamily Bonds

The Task Force Report again adopts ALHFA's recommendation that bonds issued for targeted (20 percent of the units at 50 percent of median or 40 percent of the units at 60 percent) multifamily projects be defined as governmental or public purpose bonds and thus not subject to the volume cap or the alternative minimum tax. This recognizes that low-income housing development is indeed a function of government. The bonds also would not be subject to the arbitrage rebate requirements so long as they are part of a project's financing. Issuers of those bonds would be required to describe how they further the housing strategy developed for the HOP program, again as proposed by ALHFA.

The Task Force also recommends creation of a certificate program, similar to Mortgage Credit Certificates (MCCs), in lieu of bonds to assist developers in constructing low-income housing. The credits would equal a portion of the interest on the mortgage loan. It also urges more favorable tax treatment for low-income housing in long-term low-income use by reducing depreciation to 20 years (straight line) and lifting the current prohibition on deducting real cash losses (partial restoration of passive loss rules), all proposals deserving of support.

It also recommends removing the 1989 sunset date for the low-income housing tax credit, removing the penalty for its use with tax-exempt financing or other federal assistance, providing full exemption for credit-assisted projects from the passive loss rules, and permitting carry-over of credit authority and its reallocation of unused authority among the states. ALHFA has made similar recommendations.

Rental Assistance

Also as ALHFA proposed, the Task Force recommends a separate rental assistance program to assist 200,000 households by making up the difference between the tenant income (based on a sliding scale tied to family size) and a reasonable rent level for decent housing. This recognizes that rental assistance, although costly, is the only practical way to assist some households.

Homeownership

In addition to supporting continuation of the Mortgage Revenue Bond (MRB) and Mortgage Credit Certificate (MCC) programs, as ALHFA proposed, the Task Force proposes greater access to FHA and FA mortgage insurance programs by establishing mortgage limits in high-cost areas based on 95 percent of home sales price, with the current $101,250 limit; by reducing downpayment requirements (up to 97 percent of the first $50,000 of a home's value and 95 percent of the balance); and by permitting the use of IRAs to buy a home. It also urges maintenance of the existing housing finance system -- FNMA, GNMA, and FHLMC -- and urges avoidance of additional costs on its operations.

Public Housing

In the area of public housing, the Task Force recommends immediate action to: preserve and modernize the existing public housing inventory; take steps to strengthen housing authority management; permit development of new public housing within budget constraints; involve tenants in project management; and carefully explore special situations for homeownership and sales of projects to tenants.

Existing Stock of Federally-Assisted Projects

The Task Force calls for the federal government to take immediate steps to maintain the supply of federally-assisted Section 221(d)(3), Section 236, and Section 8 housing by renewing project-based and tenant-based subsidy contracts. Also, state and local governments should use HOP as a tool to preserve units. Again, this proposal is fully consistent with ALHFA's recommendations.

In conclusion Mr. Chairman, ALHFA wishes to reiterate its desire to work with the Subcommittee as it drafts legislation to implement the reccommendations of the National Housing Task Force.